APPENDICES TO THE INTERIM REPORT

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ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY

APPENDIX I

MEMORANDUM AND SUPPLEMENTARY NOTES ON THE LOCATION AND MANAGEMENT OF THE GENERAL BALANCES OF THE GOVERNMENT OF INDIA AND THE SALE OF COUNCIL BILLS AND TRANSFERS Submitted by Mr L ABRAHAMS C B, Assistant Under Secretary of State for India

ibution between England and India

1 The disbursements by and on account of the Government of India are made partly in India and partly in London the respective amounts in 1912–13 being shown in Statement A of Appendix II (page 72) as follows —

		£
India	- - - -	89 734 800
England	- - - -	33,963,100
	Total - -	123 697,900

2 It is therefore necessary to keep the balances partly in the one country and partly in the other The distribution of the balances between the two countries on the 31st of March of each year from 1892–93 to 1913–14 (Budget Estimate) is shown in Statement B of Appendix II (pages 74–5) It will be seen that the Revised Estimate for 1912–13 (published on 20th March 1913) anticipated that the distribution on 31st March 1913 would be as follows —

		£
India	- - - -	19,543,889
England	- - - -	8,372,900

3 The actual balances on 31st March 1913 were —

India (Statement C, page 76)	- -	19,268 200
England	- - - -	8,781,200

II

Location of the Balances held in India

4 It will be seen from Lord Salisbury's Despatch of 6th May 1875 and Lord George Hamilton's Despatch of 4th May 1899, printed in the collection of papers which I hand in to accompany this Memorandum (*see* Appendix II, pages 32 and 62), that the Government of India has always been entrusted by the Secretary of State with wide discretion in this matter

5 The actual location of the Government balances in India at the end of each quarter in the years 1895–96, 1900–01, 1905–06, 1910–11, 1911–12, and 1912–13, is shown in Statement C of Appendix II (page 76)

6 The location on 31st March 1913 was as follows —

	No	Amount
		£
District Treasuries - -	271	6,607,400
Branches of Presidency Banks -	35	2,156 700
Head Offices of Presidency Banks	3	1,595,400
Reserve Treasuries - -	3	8,908,700

* The figures are not actual gross disbursements In Statement A, as in all the other published Statements, receipts under some heads are set off against gross disbursements and under other heads disbursements against gross receipts, the differences being shown as net disbursements and net receipts respectively But the figures in Statement A serve their purpose of representing fairly the relative importance of the transactions in India and England

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7 The money in District Treasuries is also held in order to provide for payments to be made in the D[illegible] District Treasuries are in p[illegible] where there is no branch of a Presidency Bank

8 Where a branch of a Presidency Bank exists, part of the Government balance is deposited in it Similarly a part of the Government balances held at Calcutta, Madras, and Bombay, is deposited at the head offices of the three Presidency Banks The relations between the Government and the Presidency Banks in respect of the holding of balances are partly regulated by agreements with the three banks which were last revised in 1898 The agreements provide that the Banks are to transact general business for the Government at their head offices and certain branches, that they are to receive specified remuneration, that the Government is not bound to retain at the Banks any particular sum, but that if its balance at the Head Office of any of the three Banks falls on any day below a specified minimum, it is to pay to the Bank interest "at the lowest rate chargeable "on such day by the said Bank to the public for loans recoverable on "demand" The remuneration of the three Banks and the minimum balances that they are to hold for the Government at their Head Office without charging interest are as follows —

	Remuneration per annum	Amount of Balance below which interest becomes payable
	£	£
Bank of Bengal - - -	2,900	233,300
Bank of Madras - - -	800	120,000
Bank of Bombay - - -	800	133,000

The revision of these agreements is now under the consideration of the Government of India

9 In actual practice the Government of India is much more liberal to the Banks than is provided for in the agreements They usually keep at the head offices of the three Banks the following amounts —

Bank of Bengal - - -	467,000*l* to 533,000*l*
Bank of Madras - - -	A little over 133,000*l*
Bank of Bombay - - -	267,000*l* to 333,000*l*

On the flotation of a loan, and in special cases, the amounts are increased

10 At times of great stringency in the Money Market, the Government of India grant loans at interest to the Presidency Banks Two such loans (40 lakhs and 20 lakhs) were granted to the Bank of Bengal in 1901, one (25 lakhs) to the Bank of Bombay in 1902, one (25 lakhs) to the Bank of Bengal in 1905, two (30 lakhs and 25 lakhs) to the Bank of Bengal in 1906 The rate, where I have been able to trace it, was the minimum rate charged by the borrowing Bank on advances In fixing this rate the Government of India has presumably been guided by the following remark in Lord George Hamilton's Despatch of 4th May 1899 (printed in Appendix II, page 62) —"I see no objection to your lending money to the "Presidency Banks on the security of Government paper at such rate of "interest from time to time, and for such periods, as you think best I am "inclined to think that the rate should as a rule, not be below Bank rate" The Government of India recently informed the Secretary of State that they have received no request for such loans for the past five or six years This may be due to the rate of interest demanded The Secretary of State recently received a letter in which the writer said 'When I was Chairman "of the Bank of Bombay Government were willing to lend money to the "Bank, but only at its own published rate, and naturally such assistance was "declined"

11 Another form of assistance occasionally given by the Government to the Presidency Banks is that, as an encouragement to the opening of new branches a minimum balance at a branch is guaranteed for a number of years

12 *Reserve Treasuries* —Reserve Treasuries were established at Calcutta in 1876, and at Madras and Bombay in 1879 The considerations in favour of this course were as follows —In the decade between 1860 and 1870 the disadvantage of depositing an excessive amount of the Government balances in Presidency Banks had been illustrated by two cases —

(*a*) On 9th December 1863 the Bank of Bengal held a Government balance of 2,968,000*l*, and its cash assets consisted only of 1,000,000*l* (a special coin reserve against Government deposits) and 998,000*l* available against the remainder of its liabilities to the Government and its liabilities to private depositors The Government found difficulty in withdrawing money standing to its credit "For about eight or ten weeks the anxiety was very serious" (Sir C Trevelyan)

(*b*) The position of the Old Bank of Bombay was unsatisfactory from 1863 until its liquidation, with a loss of capital of about 1,900,000*l* in 1868 In 1865 and in 1867 there were large withdrawals by the public, and on each occasion the Government had to promise assistance to prevent, or check, panic

Similarly in 1874, at a time when the Government had a balance of 1,000,000*l* at the Bank of Bombay, the Bank remonstrated against the proposed withdrawal of 350,000*l*, and the withdrawal was postponed (*See* pages 30, 32, and 49 of Appendix II)

The immediate cause of the establishment of the Reserve Treasuries was the incident of 1874

III

Alternative methods of dealing with Government balances in India

13 The possible changes in the method of dealing with Government balances in India seem to be as follows —

1 To increase, either with or without interest, the amounts placed with Presidency Banks
2 To place money with other Banks
3 To lend on security to firms and institutions other than Banks

14 The considerations bearing on these alternative methods appear to be as follows —

Presidency Banks

Between 1899 and 1905 there was considerable discussion in India regarding the position of the Presidency Banks, arising out of the proposal for the establishment of a Central Bank, and ending with certain enlargements of the powers of the Banks made in the Presidency Banks Act of 1907 In the course of the discussion the suggestion was made (but not supported by the Government of India) that the Government should do more than it was then in the habit of doing (and than was contemplated in Lord George Hamilton's Despatch quoted on page 2) to place money at the disposal of the banks in the busy season So far as such action might lead to a reduction of the rate of discount, especially in the busy season when it seldom fails (*see* Statement I of Appendix II, page 86) to reach 7 per cent at Calcutta and Bombay, its advantages are obvious

15 But there are important considerations to be borne in mind on the other side —

(1) Although the total Government balances from 1909 have been in excess of its immediate requirements, this has been due to exceptional causes which have almost passed away Ordinarily the total balances do not exceed except perhaps for short periods, what the Government needs, as is shown by the figures in Statement B, pages 74–5 Assistance given to trade in the manner suggested would therefore be liable to be spasmodic, and the withdrawal of money when needed by the Government might cause general inconvenience and disorganisation I believe that the Government of India have generally attached much importance to this consideration In a letter to the Secretary of State (Lord George Hamilton), dated 18th January 1900, they said "Regarding the general danger involved in the "financing of trade by the Government, we have before us the words of "Lord Salisbury's Despatch of 6th May 1875, 'Capital supplied by Govern-"'ment, and not representing the savings of the community, is a resource

" 'on whose permanence no reliance can be placed, and which therefore tends " 'to lead trade into dangerous commitments.' The warning conveyed in " those words still holds good. . . . The Presidency Banks have " excellent reserves, it may readily be admitted. But those reserves could " not, in the peculiar circumstances of India, be suddenly converted into " cash, and it seems therefore undesirable that the account of one depositor, " and that one a Government exposed, as the Government of India is, in a " most unusual degree, to sudden calls and emergencies, should occupy a " position of such dangerous importance. To look to no graver contingency, " it is clear that a sudden call by Government for its money would influence " discount rates in a way that would seriously hamper trade." I gather that the present opinion of the Government of India is not substantially different from that which was held in 1900. On 18th September 1911 Sir G. Fleetwood Wilson, Member of the Governor-General's Council in charge of the Finance Department, was asked in the Legislative Council "whether Government " will lend to the money markets in " India against the deposit of securities " of approved character when their " Treasury balances are high," and replied, "The Government of India " leave considerable sums out of their " Indian cash balances on deposit with " the Presidency Banks. They do not " consider it advisable to make a practice of lending to the money markets " in India in any other manner or to any larger extent."

* It will be seen from column 2 of Statement C (showing Money held in the three Reserve Treasuries), page 76, that if during 1912-13 the Government of India had wished to place larger deposits from their Treasury balances with the Presidency Banks, they would not have been prevented by lack of means at that time.

The objection against largely increased deposits with the Presidency Banks from so uncertain a source as the Treasury Balances seems to me very strong, and as much so in the interest of trade as in that of the Government, since it would be most undesirable that such deposits, being made mainly to help trade (unlike the loans from India Office balances, which are made merely to earn interest), should be liable to be suddenly withdrawn whenever the Government was pressed for money.

I should add, however, that this particular objection would have practically no force against any scheme for depositing additional money with the Presidency Banks (at interest and against security), from the Reserve of the Paper Currency Department. A proposal on these lines (except that nothing specific was said about security), was placed before the Government of India by the Bank of Bengal in a letter dated 2nd December 1899.† The following passage is taken from the Bank's letter: "The suggestion which my " Directors would make is that when the Bank rate rises to a height that " indicates undue pressure, the Presidency Banks may be able to rely on " procuring loans through the Comptroller-General either from the Reserve " Treasury, or failing this, from the Paper Currency Reserve, at the current " rates for demand loans on Government paper, rising and falling therewith. " In submitting this suggestion my Directors desire me to state that it is " made with the sole object of ensuring a steady supply of loanable capital " at moderate rates. These loans would yield profit to Government, and " benefit all who are interested in a steady money market, while the Bank " would undertake, without profit to itself, the risk and labour involved. " My Directors would also submit that the Paper Currency Reserve is the " most suitable fund to devote to this purpose, not only because it is large " and steady, and, as experience has shown, would have been found ample " from first to last to have relieved each monetary pressure from " which India has suffered, but because it is to the Paper Currency " that other nations look for assistance at times of monetary strain, and " if effect is given to the proposal now made, the elasticity of the central " banking resources, of which the Indian money markets were deprived by " the transfer of the Paper Currency to Government will be restored." The proposal of the Bank of Bengal was supported by the Bank of Madras‡ but strongly opposed by Mr. Dawkins, in a speech in the Legislative Council on 5th January 1900§ and by the Government of India in a Despatch to the

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† Printed on pages 365 to 369 of 'Papers relating to the Proposed Establishment of a Central Bank in India (reprinted from the *Gazette of India* and *Supplement*, dated the 12th October 1901)," Simla, 1901.

‡ *Ibid* page 416. § *Ibid* page 394.

Secretary of State dated 18th January 1900, from which the following sentences* are taken —" An alternative measure suggested by the Bank " of Bengal is that, when the Bank rate rises to a height that indicates " undue pressure, loans should be made from the coin reserve of the " Paper Currency Department This is a suggestion which is open " to fatal objections Our duty, as we conceive it, is to maintain that " proportion of coin in our total currency reserve which is necessary " for ensuring convertibility If the proportion were large enough to " admit of loans being made therefrom, then it would be unneces- " sarily large, and the general taxpayer, not any particular section of " the community like the Banks, should benefit by the substitution of " securities for superfluous coin " These objections seem to me very unconvincing The coin in the Paper Currency Reserve has long been much in excess of what is needed to ensure convertibility, and quite large enough to enable loans to be granted to the Presidency Banks without inconvenience to the Government, if the strength of the Banks is held to be sufficient to justify such loans (a point dealt with below), the coin reserve can be maintained without difficulty at the level required to make them possible, and the loans besides being beneficial in a way in which an addition to the permanent securities held in the Reserve would not be, would probably yield interest to the same, or nearly the same, amount *per annum*

(2) The Government deposits bear what might, perhaps, be regarded as a high proportion to the Capital and Reserve and the Cash of the Presidency Banks Statement D (pages 78-80) summarises the position of the three Presidency Banks as shown in the last weekly statements published for each quarter in 1890, 1891, 1892, 1910, 1911, and 1912 The percentages of Government deposits (*a*) to Capital and Reserve and (*b*) to Cash at the dates mentioned in the last three years were as follows —

	Bank of Bengal		Bank of Madras		Bank of Bombay	
	Percentage of Government Deposits to—		Percentage of Government Deposits to—		Percentage of Government Deposits to—	
	Capital and Reserve	Cash	Capital and Reserve	Cash	Capital and Reserve	Cash
1910						
March	51.9	37.9	54.3	41.6	91.6	56.3
June	50.3	20.5	58.5	24.7	60.9	28
September	51.7	23.8	53.7	20	54.6	17.5
December	47	34.5	67.6	39.5	74.2	34.8
1911						
March	54.9	36.3	68.9	121.0	84.9	46.5
June	54.4	26.1	71	33.9	64.9	28.8
September	51.2	28.6	57.1	33.1	61.1	18.5
December	60.4	28.9	53.5	35.5	52.4	23.3
1912						
March	50.5	29	93.8	57	83	35.8
June	52.6	26.5	52.4	32.4	75.7	30.1
September	47.5	21.4	48.3	30.8	67.9	27.4
December	51.7	29.1	52.4	38.6	51	31.3

In connection with these figures it is necessary to bear in mind that the Banks have not, like most of the great English Banks, uncalled capital This is a point against a large increase in the amount of Government money deposited with the Banks On the other hand it should be mentioned that the percentages shown above, high though they are, are generally lower (as will be seen from Statement D of Appendix II, pages 78-80) than those which prevailed in 1890, 1891, and 1892

Deposits or Loans with other Banks

16 The only other Banks in India which can be compared, in respect of resources and volume of business, with the Presidency Banks are certain

* *Ibid* page 399

Banks known as the Exchange Banks, which play the chief part in financing India's foreign trade They are as follows —Chartered Bank of India Australia and China, Delhi and London Bank, Hong Kong and Shanghai Banking Corporation, National Bank of India, Mercantile Bank of India, Eastern Bank, Compton National d'Escompte de Paris, Yokohama Specie Bank, Deutsch-Asiatische Bank, International Banking Corporation, and Russo-Asiatic Bank The "Statistics of British India" contain the following information regarding their position in 1910 —

	£
Capital, Reserve and Rest - -	22,600,000
Deposits in India - - - -	16,200,000
Cash in India - - -	2,860,000

17 The general strength of the Exchange Banks may not unreasonably be held to afford considerable support to the view that Government money might safely be entrusted to them On the other hand —

(1) They are all Banks with Head Offices out of India

(2) The cash that they hold in India is, as shown above, of very limited amount and represents only a small fraction of their liabilities to private depositors in India

(3) There is no reason to believe that the Exchange Banks desire an extension of the practice of placing Government money with Banks The Government of India recently informed the Secretary of State of a discussion on the subject between the Calcutta representatives of certain Exchange Banks, and the Member of the Governor-General's Council in charge of the Finance Department The impression formed by the latter was that the suggested change of practice, at any rate if introduced on a large scale, would not be welcomed by the Banks

18 The other Banks about which statistics are available are nineteen joint stock banks regarding which information up to 1910 is given in the "Statistics of British India" The chief information for the year mentioned is as follows —

	£
Capital - - - - -	1,837,000
Reserve and Rest - - -	670,000
Deposits - - - - -	17,100,000
Cash - - - -	1 868,000

One of the nineteen Banks has gone into liquidation since 1910

It seems obvious that not much could be done by way of placing Government balances with these Banks and I am not aware that any proposal to this effect has been put forward by any responsible body

Loans to Firms and Institutions other than Banks

19 It will be seen from Lord Salisbury's and Lord George Hamilton's Despatches referred to at the beginning of Section II that the grant of short term loans at interest and on security, otherwise than to Banks, has long been within the powers of the Government of India So far as I am aware, such loans have never been granted The only occasion on which I can trace that the matter has been considered by the Secretary of State and the Government of India, except in the Despatches mentioned, was when, as stated on page 4 of this Memorandum, a question on the subject was asked in the Legislative Council of India, on 18th September 1911

20 It is obvious that, unless a general practice of granting loans is to be instituted, exceptional loans to particular firms would be open to serious objection The difficulties in the way of establishing a general practice are briefly summarised as follows in the "Memorandum on India Office Balances" presented to Parliament in 1913 (Command Paper 6619) —"(1) The "loans would probably be secured in most cases on rupee paper and "if, through the default of borrowers, large quantities had to be sold in any "year, the annual Government loan in India, which is effected by the issue

"of rupee paper, might be injured, (2) In the comparatively small and "sensitive Indian money markets, the rapid calling in of large loans to meet "an emergency might be difficult and dangerous" The first difficulty would be lessened if loans were granted against Bills drawn and accepted by firms of high standing

IV.

India Office Balances

21 The management of the balances of the India Office is described in the following extract from the "Memorandum on India Office Balances" just referred to —

"A considerable part of the disbursements in each year consists of very large payments which are made within very short periods This is illustrated by the following figures showing the total payments in certain periods in 1911–12 —

"1st to 5th April 1911, 3,624,304*l* (including 2,084,897*l* for annuities and interest, and 1,333,333*l* for Paper Currency Reserve investment), 1st to 5th July 1911, 3,815,710*l* (including 2,691,367*l* for annuities and interest, 187,757*l* for Gold Standard Reserve investment, and 301,800*l* for discharge of debt), 1st to 5th October, 2,462,000*l* (including 2,114,605*l* for annuities and interest), 1st to 5th January 1912, 3,100,857*l* (including 2,685,769*l* for annuities and interest, and 75,000*l* for discharge of debt)

"There are also other large payments such as those for railway stores, which have to be made at very short notice, but at dates that cannot be exactly foreseen, since they depend on the punctuality or otherwise of contractors

"The money from which these payments are made is not received just at the moment at which it is needed The greater part of it is derived from the sales of Council bills and telegraphic transfers which, though in unfavourable years they are liable to cease for considerable periods, take place as a rule every week Sometimes, but in many years not more than once in the year, large sums are received in a short time as the proceeds of a loan or loans

"It is thus necessary, as a rule, in preparation for the periods of heavy payments, to accumulate the weekly receipts so as to have them in hand or at call for use when the money is required

"The whole of the working balance thus required might be allowed to remain at the credit of the Secretary of State at the Bank of England, in which case the revenues of India would receive no interest on it, but the practice followed since 1838 has been to keep a certain part of the balance at the Bank and to lend the remainder at interest

"The usual method is to lend to certain banks, discount houses, and stockbrokers of high standing, whose names are included in an approved list, now containing 62 names The list is revised periodically, and applications for admission are carefully considered with reference to the standing and resources of the applicants and the nature of their business Loans to borrowers on the approved list are granted as a rule for periods from three to five weeks, occasionally for six weeks, so that the whole balance could, if needed, be called in within six weeks

"The Accountant-General informs the Secretary of State's broker daily of the amount of loans that may be renewed, the amount of new loans that may be placed, or the amount that must be called He also furnishes the dates for the maturity of the renewals and new loans, so that money may be available to meet requirements The broker is responsible for obtaining the best possible rate of interest The amount of a loan is not paid out from the Secretary of State's account at the Bank of England until the security has been lodged at the Bank The securities which the broker is authorised to accept are as follows — Exchequer bills and bonds, Treasury bills, Parliamentary stocks and annuities of the United Kingdom, securities on which the interest is guaranteed by Parliament, India stock, debentures, bonds,

and bills, Rupee paper, Guaranteed debenture scrip (fully paid), or bonds of Indian railway companies, London County stock and bills, Metropolitan consolidated stock, Corporation of London debentures, Metropolitan Water Board bills, and "B" stock The particulars of each loan transaction are submitted each week to the Finance Committee for approval, and each month to the Auditor of the Accounts of the Secretary of State in Council †

"In 1909 it was found that the borrowers on the approved list could not take the full amount of the balances available for loan, and, in order to obtain employment for the funds, the broker was instructed, as a temporary measure, to deposit the excess amount from time to time with leading London banks, usually for periods of between one and three months The procedure adopted was as follows —The Accountant-General informed the Secretary of State's broker of the amounts available, and the periods for which he desired to employ them After consultation with the Chairman of the Finance Committee the broker negotiated with the various banks so as to obtain the best possible rates of interest, which were governed by the rates current in the discount market He then reported to the Accountant-General, and the particulars of all deposits were submitted to the Finance Committee and the Auditor In November 1911, it was decided that, so long as it should be found necessary to continue the practice of depositing with banks, the amount on deposit at any one bank should be limited as a general rule to 1,000,000*l*, and the number of banks at which deposits were made was increased to seven The balance has now been so much reduced that it is no longer necessary to deposit with banks

"The rates obtainable on the India Office balances necessarily depend on those current in the London Money Market for short loans and deposits, and these are sometimes higher and sometimes lower than those at which permanent loans, bonds or bills for a year can be issued In 1909-10, 1910-11, and 1911-12 the rates paid by the India Office on issues of India stock, bonds, and bills have varied between 3*l* 12*s* 11*d* and 2*l* 3*s* 11*d* per cent During 1911-12 the average rate of interest received by the India Office on loans to approved borrowers was 2 60 per cent and on deposits 2 43 per cent Information to this effect was given in the Viceroy's Legislative Council on 22nd March 1912, and the difference between the rates received and paid respectively attracted the notice of Colonel Yate, M P, Mr Stewart M P, and Mr Thorne, M P, the latter of whom asked (6th November 1912) 'whether there is any truth in the statement that the India 'Office is in the habit of lending money at 2½ per cent and borrowing it 'back at 3½ per cent' The explanation is, of course, that the India Office borrows only when it appears necessary to do so in order to meet capital expenditure or (very exceptionally) to make good, temporarily, a deficit due to famine or other causes of a similar exceptional nature, and pays the rate of interest necessitated by market conditions on the loans, mostly in the form of permanent stock, which it issues, whereas it lends for short periods to prevent its balance from lying idle and gets on such loans the best rate that is at the time possible in the condition of the money market, having regard to the fact that the security required is of a very high class and that loans are granted only to firms of very high standing The alternative to lending for short periods at rates which are sometimes below those paid on the stocks and other securities that it is necessary to issue would be to discontinue entirely or occasionally the practice of lending, which brought in to Indian revenues 2,193,879*l* in the last 20 years"

V.

Amount of total balances (India and England combined)

22 The amount of closing balance in each year considered by the Government of India to be necessary for safety in India is 12,500,000*l* The amount required in England in ordinary circumstances is about

* The list of securities has been slightly enlarged since the Memorandum was written Mr Badock will give information on these points (*See* Appendix XI, page 314)

† The weekly lists are now submitted to the Secretary of State and the Council

4,000,000*l*, or somewhat more, as explained in Sections V and IX of the "Memorandum on India Office Balances"† The Budget of each year, which (except so far as concerns fixed charges and loan transactions in England) is based on estimates framed by the Government of India, is drawn up as a rule so as to provide for a closing balance not differing greatly from the total of these amounts, *i e*, in round figures, 17 000,000*l*

23 It will be seen from Statement B of Appendix II, (page 75), that there are two recent years in which the total balance provided for in the Budget has appreciably exceeded this amount, viz, 1911–12 (21,221,440*l*) and 1912–13 (19,589,871*l*) The explanation of these amounts is as follows —

1911–12 As shown in footnote 5 to Statement B, the estimated balance on 31st March 1912 included 1,903,000*l*, being part of the "opium surplus" of 1910–11 specially held towards providing for the discharge of temporary debt after 1911–12 This sum represents a portion of the exceptional receipts from opium in 1910–11 which, being in the nature of a windfall, it was decided to set aside for special purposes Two-thirds (amounting to 1,903,000*l*) of the total exceptional receipts was allocated to the discharge of temporary debt For the reasons stated in the Secretary of State's Despatch of 23rd December 1910, No 117, of which I hand in a copy (*see* page 65), it was decided to apply the allocated amount primarily to the discharge of the formidable obligations in the shape of bonds maturing at fixed dates which had to be dealt with after 31st March 1912 Failing this, there would have been a danger that an appreciable part of the limited amount that can be borrowed in each year would have had to be devoted to the discharge of bonds in 1912–13 and subsequent years, instead of being used for capital outlay on railways and irrigation works The importance of avoiding this will appear from what is said in Section VII below For reasons explained on page 10 of the "Memorandum on India Office Balances,"† the Budget for 1911–12 was prepared so as to provide for a somewhat high closing balance even apart from the 1,903,000*l* mentioned

1912–13 The comparatively high closing balance provided for in the estimates for 1912–13 was due to the same cause as has been just explained

24 The actual closing balances at the end of 1908–09, 1909–10, 1910–11 1911–12, and 1912–13 have considerably exceeded both the standard mentioned at the beginning of this section and the Budget estimates Part of the excess in 1908–09, 1909–10, 1910–11, and 1911–12 was due to temporary and exceptional causes, explained in the footnotes to Statement B, viz, the presence in the balances of (*a*) the specially hypothecated portion of the "opium surplus" of 1910–11 and a similar receipt realised in 1911–12, and (*b*) receipts on account of loans for capital outlay issued, in view of market conditions, shortly before the commencement of the financial year in which the outlay was to be incurred Allowance is made for those causes in the final columns of Statement B, headed "Adjusted Actuals" (pages 74–5), from which it will be seen that, apart from the special causes, there was an excess over the Budget Estimate, or the normal standard, or both, in 1909–10, 1910–11, 1911–12, and 1912–13 The factors contributing to these excesses are shown in Statement A (dealing with the transactions of the Government of India as a whole), and Statement E (dealing with Revenue proper and Expenditure chargeable against Revenue) *see* Appendix II, pages 67–73 and page 81 From Statement E it will be observed that the Revenue surpluses (excluding Provincial Adjustments) exceeded the Budget Estimates in 1909–10, 1910–11, 1911–12, and 1912–13 by sums amounting to 20,967,184*l* in the four years On the facts shown in Statements A and E the following general remarks may be made —

(1) The Budget estimates of revenue represent the best forecast that the Government of India can frame in each March of the probable receipts and expenditure chargeable to revenue under the various heads during the coming financial year Such forecasts must always be uncertain, since the rainfall from June to September is the deciding factor in the financial results of each year A very good monsoon may swell the receipts from Railways, Customs, and

* See Financial Statement of the Government of India for 1911–12 paragraphs 6 to 10 (H C 155 of 1911 pages 2 and 4)

† Command Paper 6619

Excise to a figure for which no prudent Government could estimate, while a bad monsoon may depress to a very low level the receipts from the sources mentioned and from Land Revenue, and may also necessitate very large expenditure on famine relief. The uncertainty of Indian estimates of revenue, due to the incalculability of the monsoon, which is perhaps sufficiently illustrated by Statement E, may be further illustrated by the experience of 1907–08 and 1908–09, in which years (*see* Statement A, pages 67–8), the net results of the Revenue transactions (excluding adjustments between the Government of India and Provincial Governments) were worse than the Budget Estimate by 1,016,600*l* and 4,451,400*l* respectively in consequence of unfavourable seasons. India came near to having a similar experience in 1911, in which year, as was said by Sir G. Fleetwood Wilson in his speech introducing the Financial Statement for 1912–13, "the half of India was on "the verge of a drought for which we might have had to go back "34 years for a parallel . . . It was a striking lesson of how "narrow is the line in India between plenty and want." (H.C. 144 of 1912, page 1.)

(2.) An additional element of uncertainty was brought into the Indian estimates for 1910–11, 1911–12, and 1912–13 by the position of the opium trade. In 1908 an agreement was made with the Chinese Government for the gradual reduction of the exports of Indian opium to China and their cessation in 1917. Owing, no doubt, to this agreement, a sensational rise in the price of opium took place at the end of 1909–10 and continued with variations until 1912. But its continuance, and indeed the continued existence of the trade with China, could never be counted on from one season to another. The agreement of 1908 was modified by an agreement of 1911 providing for the termination of the trade in certain eventualities before 1917. In 1912 strong representations in favour of the immediate stoppage of the sales of Indian opium for China were submitted to the Government of India by merchants engaged in the trade. In 1913 measures were taken which, for the time at least, have entirely stopped the trade with China. The financial history of India during the last three years has been coloured and almost dominated by the uncertainty regarding the opium revenue, of which the importance is shown by the following figures (taken from Statement E, page 81) of net opium receipts:—

	Budget Estimate.	Actual (or Revised Estimate).
	£	£
1910–11 - -	3,550,100	6,271,531 (Actual).
1911–12 - -	3,093,300	5,228,312 (Actual).
1912–13 - -	2,930,700	4,503,500 (Revised Estimates March 1913.)
1913–14 - -	306,000	

(3.) The underspending in several years (as shown in Statement A under '9 Capital Outlay on Railways, Irrigation Works, and Delhi,' pages 67–73) of the amounts provided for capital outlay has occurred to a considerable extent in the expenditure by railway companies, over whose action in regard to the placing of contracts for stores the Secretary of State and the Government of India have only a limited control. Measures have been taken with the object of doing what is possible to enable railway companies to spend fully the amounts placed at their disposal in each year for capital purposes.

25. It is shown in Statement B (pages 74–5) that the excess of the closing balances over the normal was held in 1909–10, 1910–11, and 1911–12 mainly in England, and in 1912–13 partly in England but mainly in India. In order to see the causes which led to its being held in England in three of the years, it is necessary to consider the method by which Government balances are transferred from India to England.

VI

Method of transferring Balances from India to England, and India Office Balances

26 Practically the whole of the Revenue of India is received in India Statement A (pages 67–73) shows that about 25 per cent of the disbursements of the Government of India are made in England A comparatively small portion of the disbursements in England is met from the proceeds of loans raised in England Practically the whole of the remainder, consisting mainly of expenditure chargeable against the Revenue of each year, is met by means of remittances from India

27 These remittances are effected by one or other of the following methods —

(1) The sale by the Secretary of State in London of Bills of Exchange (commonly known as Council Bills) and Telegraphic Transfers to be met by the Government of India in India Details regarding the method of sale will be given by Mr Newmarch (*see* Appendix VII) It is perhaps enough to note here that since 1899 the minimum price of bills has been 1s $3\frac{29}{32}d$, and since 1904 there has been in force an undertaking to sell bills without limit of amount at 1s $4\frac{1}{8}d$ These two prices are rough and conventional equivalents of the "gold exporting point" and "gold importing point"

Information regarding the manner in which the amount of the sales is regulated is given below

(2) Occasionally, when it has seemed improbable that the Secretary of State would be able to obtain by the sale of Bills and Transfers the amount estimated to be required from that source, gold held by the Government of India in India has been consigned to London As the metallic money held by the Government of India is mostly in the Paper Currency Reserve against notes held in the Government treasuries, the Government of India, when shipping gold to London to be used for the general purposes of the Secretary of State, must usually take the gold from the Paper Currency Reserve and cancel a corresponding amount of notes held in their general treasuries or must transfer from their treasuries a corresponding amount in rupees to the Currency Reserve

(3) The conditions in recent years have enabled transfers of gold from the Paper Currency Reserve, when required to supplement the proceeds of Bills and Transfers, to be effected in a more convenient and economical manner than in (2) Part of the Paper Currency Reserve is held in gold in London (taken from the proceeds of the sale of Council Bills *), and the Secretary of State can accordingly withdraw gold from it, when required, against either the cancellation of notes held in the Treasuries of the Government of India or the transfer of rupees from those Treasuries to the Paper Currency Reserve in India

* *See* Column 5 of Statement F (Appendix II, page 82)

VII

Method by which amount of Sales of Council Bills and Transfers is regulated

28 The Indian Currency Committee of 1898–99, over which Sir Henry Fowler presided, said at the end of their Report (paragraph 70) "It is "eminently desirable that, in order to assist towards the speedy establish- "ment of an effective gold standard in India, the Government of India "should restrict the growth of their gold obligations" The particular reason mentioned by the Committee in support of their recommendation has

much less force now, since a gold standard has been effectively established, than it had in 1899, and the extent to which the recommendation can be carried out is limited by the fact that the amount that can be obtained in India towards providing for the capital outlay on railways and irrigation works is in normal circumstances much less than the total outlay generally admitted to be desirable, so that considerable loans must be issued in London But, having regard to the general advantage of restricting, as far as may be, the growth of a country's external debt and to the practical difficulties attending the issue of large annual loans in London on behalf of the Government of India, the Secretary of State endeavours to obtain from funds provided in India as large a proportion as practicable of the money required for each year for expenditure in England on account of India

29 It is accordingly the practice to estimate in the Budget of each year for the remittance to England (to be used towards defraying the expenditure of the India Office both on revenue and capital account) of as large an amount as the Government of India estimate that they will be able to devote to meeting Council Bills and Transfers sold by the Secretary of State The estimate depends, of course, on the resources held by the Government of India in India at the beginning of the year and their forecast of their receipts and their requirements during the year, the requirements being for expenditure on revenue and capital account, for loans to be granted to agriculturists and others, and for the maintenance of a working balance All these estimates are necessarily framed by the Government of India

30 The actual sales in a year often differ considerably from the Budget estimate, (*see* Statements A and F of Appendix II, pages 67–73 and page 82) In seven out of the twenty years from 1893–94 to 1912–13, the trade demand for bills and transfers has not been sufficient to enable the full estimated amount to be sold In the remaining thirteen years the sales have exceeded the estimate because the practice is to sell freely in years of heavy trade demand, subject to the consideration, on which something will be said at the end of this Memorandum, that the sales shall not be on such a scale as to prevent the inflow of gold to India to the extent to which it seems likely that there will be a demand for it on the part of the public The practice of selling freely is of long standing The reasons in favour of it are the following, of which the fourth is, in my opinion, by far the most important —

(1) The opportunity of purchasing bills and telegraphic transfers in India, as an alternative to consigning gold for the discharge of the trade balance due to India is a great convenience to trade, more especially in times of pressure This is illustrated by the fact quoted on page 4 of the "Memorandum on India Office Balances (Cd 6619)," that in 16 days in January—February 1912, telegraphic transfers were sold for 3,500,000*l*, with the result of transferring this amount immediately from Government treasuries to mercantile hands I believe that the present practice is generally appreciated by the various mercantile communities in India

(2) If the sale of Council Bills were restricted more closely than at present, larger shipments of gold to India to an amount equivalent to the reduction of sales of Council Bills would presumably be made by banks and merchants for discharging the trade balance due to India, unless, as is possible, the balance of Indian trade were adversely affected by the change of system The greater part of such gold would be tendered by importers to be exchanged by the Government either direct for rupees or for notes which would be, in due course, cashed in rupees, and would thus find its way into the Paper Currency Reserve in which the greater part of the metallic money belonging to the Government of India is kept In due course the proportion of rupees to gold in the Paper Currency Reserve would decrease, the stock of rupees would fall to, or below, the limit of safety, and purchases of silver for the coinage of new rupees would be required Owing to the restriction of the sale of Council Bills, the Secretary of State

would probably not be able, as he usually (though not invariably*) is, under existing conditions, to buy the silver with money received at the India Office in payment for such Bills, and he would be compelled instead to call on the Government of India to ship gold to him, a course obviously uneconomical since it involves the payment by the Government of freight and insurance on the exportation from India of gold on which bankers and merchants have paid similar charges at the time of importation

Similarly, a close restriction of the sale of Council Bills would probably necessitate shipments of gold by the Government of India, usually but not invariably avoided under existing conditions, to provide for payments to the Gold Standard Reserve and investments on behalf of the Paper Currency Reserve in England

* 6,000,000*l* of gold was sent home by the Government of India between October 1900 and July 1901 4,261,000*l* between July 1903 and February 1904 and 6,600,000*l* between August 1904 and July 1905, mainly to meet payments for silver and to the Gold Standard Reserve On these and similar occasions India was sometimes exporting and importing gold simultaneously Since the last mentioned date the shipments by the Government of India have been —5,000,000*l* to establish the English portion of the Paper Currency Reserve, and 2,623,000*l* light gold coin sent at various dates in 1908–9 and 1912–13

For the reasons given in Section VIIIC below I omit consideration of the possibility of further shipments of gold being required to assist the Secretary of State in meeting his disbursements for General Purposes

3 The larger shipments of gold to India, consequent on a reduction of the sales of Council Bills as explained in (2), would sometimes be on a very considerable scale In the Table on page 15, the reductions of the sale of Council Bills for General Purposes that would have occurred in the period 1909–10 to 1913–14 under three possible alternative methods of regulating the sales are given at 19,529,519*l*, 14,518,519*l* 13,414,522*l* respectively In addition there were sales of 8,690,000*l* of which the proceeds were appropriated to the Gold Standard Reserve and of 1,333,300*l* of which the proceeds were used to buy securities for the Paper Currency Reserve* (*see* Statement F of Appendix II page 82) If the sales for General Purposes had been reduced to the extent shown, and if the sales for the Gold Standard Reserve and Paper Currency Reserve had not taken place, the extra shipments of gold to India, to adjust the balance of trade would presumably have been, under the three alternative methods, 29,552,819*l*, 24,541,819*l* ,and 23,437,822*l* respectively, on the assumption that the balance of trade would not have been affected by the change of practice The shipments would presumably have been made in each year mainly in the busy months when the demand for trade remittance to India is strongest There can be no reasonable doubt that the temporary or permanent withdrawal, effected at such times, of amounts of gold of this magnitude would injure Indian interests in two ways, viz —by hampering the Secretary of State's loan operations in London (*e g*, the issue of Indian securities and the renewal of maturing obligations such as the debenture bonds of guaranteed Indian Railway Companies) and by causing a rise in discount rates in London (and probably all over the world) which could not fail to injure India's trade, especially her foreign trade

(4) When remittances additional to those estimated for in the Budget are made by the Government of India to the Secretary of State, the proceeds are used, so far as not required for meeting requirements not provided for in the Budget, either towards reducing the amount to be borrowed in England for capital outlay or towards paying off debt It should be mentioned that, since excess receipts from Bills and Transfers can never be counted on until late in the financial year, when the result of the monsoon and the trade and agricultural position are known, whereas the favourable opportunity

* The further amounts appropriated to the Paper Currency Reserve, as shown in column 5 of Statement F (page 82), were set aside in gold, and thus had the same effect on the London money market as if they had been shipped to India They are, therefore, omitted from consideration in the present context

for carrying out loan transactions usually occurs, if at all, early in the financial year it follows that the proceeds of excess sales of Bills and Transfers cannot ordinarily be used for the avoidance or repayment of debt until the year after that in which the excess sales have taken place In this respect the practice of the India Office resembles that of the Treasury, which applies surpluses to the reduction of debt in the year after they have been realised

The extent to which the proceeds of extra sales of Bills and Transfers were used in 1910-11 1911-12, and 1912-13 to discharge debt and to restrict the amount of new debt created is shown in some figures on page 12 of the "Memorandum on India Office Balances" recently presented to Parliament [Cd 6619] The effects in this respect of existing practice are more fully shown in the following summary compiled from Table A, page 69 73

CAPITAL RECEIPTS AND DISBURSEMENTS, 1909-10 to 1913 14

Capital Receipts (Loans issued by Government, Capital paid to the Government by Railway Companies, and Unfunded Debt, i e, Deposits of Savings Banks and Service Funds)

	India	England	Total
	£	£	£
1909 10 (Raised in Advance in 1908 09)		4,475,000	4,475,000
(Raised in 1909 10)	2,571,700	5,159,000	7,730,700
1910 11 (Raised in Advance in 1909 10)		6,370,000	6,370,000
(Raised in 1910 11)	2,245,700	5,309,100	7,554,800
1911 12 (Raised in Advance in 1910 11)		2,210,000	2,210,000
(Raised in 1911 12)	3,198,400	2,855,100	6,053,500
1912-13	3,791,400	3,495,000	7,286,400
1913 14 (Budget Estimate)	3,657,500	3,000,000	6,657,500
Total	15,464,700	32,873,200	48,337,900

Capital Disbursements (Capital Outlay on Railways, Irrigation Works, and Delhi and Discharge of Debt)

	India	England	Total
1909 10	3,920,100	5,957,100	9,877,200
1910-11	3,712,900	9,255,900	12,968,800
1911 12	4,508,100	7,898,900	12,407,000
1912-13	4,674,200	13,554,900	18,229,100
1913 14 (Budget Estimate)	6,231,000	10,594,100	16,825,100
	23,046,300	47,261,200	70,307,500
Excess of Capital Payments over Capital Receipts	7,581,600	14,388,000	21,969,600

The significant figures in this summary are those in the last line They serve, indeed, as an epitome of the financial policy consistently pursued by the India Office in the last three years, viz, to take advantage of a period of prosperity and windfalls in India in order (1) to pay off the portion of India's external debt of which the discharge was either obligatory or very desirable, (2) to overcome, as far as possible, the difficulties in the way of the improvement of the Indian railway and irrigation systems caused by the unfavourable position of the market in London for Indian loans

(5) Money held in England as a working balance or pending use for the reduction of debt or defraying capital expenditure earns interest, the amount so earned from 1909-10 to 1912-13 having been 1,241,173*l* * The deposit of balances in India at interest is rare (*see* page 2), and, although there are arguments of no little force for placing Government money on deposit with the Presidency Banks at certain times of the year more freely than has been customary, such deposits should I think, for the reasons given on pages 3

	£
* 1909-10	130,070
1910-11	362,880
1911-12	376,053
1912-13	372,170
Total	1,241,173

to 5 above, be made from the Reserve of the Paper Currency Department If this were done, the Treasury Balances in India would still earn no interest

VIII

Effect of Regulating Amount of Sales of Council Bills and Transfers otherwise than as under existing Practice

31 It seems to me desirable that the Commission should realise fully how the recent and present position of the Secretary of State and the Government of India would have been affected if, during the last few years, there had been in force any method, other than the one described above, of regulating the amount of the sales of Council Bills and applying the proceeds of sales effected in excess of the Budget Estimate In Supplementary Note I on "Alternative Methods of Regulating Amount of Sales of Council Bills "and Transfers," I compare, as closely as the conditions allow, the actual sales of Council Bills and Transfers for General Purposes from 1909–10 to 1912–13 and the estimated sales for 1913–14, with what they would have been if regulated by any of what seem to be the only possible alternative methods According to the calculations in that Note the primary effect of applying in 1909–10 to 1913–14 the various possible alternative methods of regulating the sales of Council Bills would have been as shown in the following statement

* This period is chosen because 1909–10 is the year in which after a period of adversity India began to enjoy the financial prosperity which led, among other results to a considerable increase of the India Office balance over the normal level

Method of regulating Sales	Reduction that would have been caused in the Secretary of State's receipts from the sale of Bills and Transfers	Portion of reduction that would have been made good by withdrawal of Gold from Paper Currency Reserve in England to pay for Silver in 1912–13	Amount that would have had to be made good in other ways
1	2	3	4 = 2 – 3
	£	£	£
1 Limiting them to the amount of the "Home Charges," i e the net expenditure of the India Office chargeable against Revenue (Section II of Supplementary Note I)	19,529,519	7,060,000	12,469,519
2 Basing Budget estimate on forecast of what Secretary of State can sell and Government of India can meet, and limiting sales to amount of this Estimate (Section III)	14,518,519	7,060,000	7,458,519
3 Limiting them so as not to allow the India Office Balance on 31st March of any year to exceed 4,000,000*l* (Section IV)	13,414,522†	3,931,200	9,483,322†

† Subject to a possible moderate reduction for the reasons given in the last paragraph of Supplementary Note I, page 2[illegible]

32 Regarding the figures in column 3 of the Table above, it is perhaps unnecessary here to do more than explain that, as I shall be able to show when giving evidence regarding the Gold Standard Reserve, the gold in the Paper Currency Reserve has been in the past, and would be in the future, a most valuable resource in a period of bad trade towards enabling the Secretary of State to pay his way and support exchange Its dissipation in a period of abounding prosperity would be extremely unfortunate

33 The significance of the figures in column 4 of the Table is much more serious It is obvious that the only methods by which in any circumstances the amounts shown in that column could have been made good are as follows —

A Reduction of India Office Balance

B Further withdrawals of gold from the portion of the Paper Currency Reserve held in England,

C Remittances from India by means other than the sale of Council Bills
D Reduction of India Office disbursements
E Increase of loans issued by the India Office or by Guaranteed Railway Companies under the authority of the India Office

34 The facts regarding the practicability or otherwise of these methods are as follows —

A *Reduction of India Office Balance*—Taking the period 1909–10 to 1913–14 as a whole, no such reduction would have been possible, since, as shown in statements A, B, and G, the estimated balance at the close of the period is about 4,000,000*l*, which is approximately the minimum compatible with safety The fact that for a considerable time within the period the balance was higher than was required, and the extent to which this was due to divergencies between estimates prepared by the Government of India and actual results, are discussed separately in Section IX

B *Further withdrawals of Gold from the portion of the Paper Currency Reserve held in England*—The amounts of gold so held during the period 1909–10 to 1913–14 have been as follows —

	£
April 1909 to February 1910 - -	1,500,000
March 1910 - - - - - -	2,500,000
April 1910 - - - - - -	3,375,000
May 1910 - - - - - -	1,165,000
June 1910 to January 1911 - - -	4,245,000
February 1911 to January 1912 - -	5,045,000
February to October 1912 - - -	5,700,000
November 1912 to February 1913 - -	7,300,000
March 1913 - - - - -	6,100,000 (Reduction due to transfer of 1,200,000*l* to Gold Standard Reserve)

It is assumed in column 3 of the Table on page 15, if any of the possible alternative methods of regulating sales had been in force, the following amounts would have been taken in gold from the portion of the Paper Currency Reserve held in England —

	£
Under first and second alternative methods	7,060,000
Under third alternative method - -	3,931,000

It is obvious that, under the first and second methods, there would have been no possibility of taking any further appreciable amount from the same source towards making good the deficiency shown in column 4 of the Table Under the third method, 3,369,000*l* could have been so taken between November 1912 and February 1913 or 2,169,000*l* in March 1913 For the reasons given in the remarks immediately after the Table, this step would have been exceedingly unfortunate

C *Remittances from India otherwise than by the sale of Council Bills*—The only practical alternative method of remittance would have been the shipment of gold to London by the Government of India for the General Purposes of the Secretary of State As stated in Section VII (2), such shipments have been made in the past mainly for specific purposes such as payments for silver or for securities for the Gold Standard Reserve when it was impracticable to effect by the sale of Council Bills the remittances required for such payments I believe that they would not have been made in the period from 1909–10 to 1913–14 for the General Purposes of the Secretary of State if in that period the sale of Council Bills had been deliberately restricted in the manner assumed in Supplementary Note I (page 22) My reasons are as follows —If the sale of Council Bills had been restricted, it would presumably have been done in accordance with the view that some specific limit should be imposed on the amount to be remitted by the Government of India to London in any given period Unwise as such a policy would have been—since it would have involved locking up in Indian treasuries money that

under the existing practice has been and is being used in London to pay for railway material for India, to reduce India's foreign debt, and for similar purposes—it is just conceivable that it would have been adopted. But it is past belief that the Government that adopted it would have neutralised it by substituting for remittances by the convenient and economical method of selling Council Bills and Transfers, an equivalent amount of remittances by the shipment of gold, a method which, as explained in paragraphs (1) and (3) on pages 12 and 13 would have been adopted, if at all, as part of a system injurious to Indian trade and prejudicial to her interests as a borrower in London, and would also have involved loss (in the shape of payments for freight and insurance, loss of premium on Council Bills, and loss of interest on balances) which I have calculated at 618,800*l*, 694,681*l*, or 1,069,120*l*, according to the method adopted of restricting the sales of Council Bills.* I have not overlooked the fact that—since Council Bills and Transfers, if sold at all, must be sold when the public wishes to buy them, whereas shipments of gold can be made at the time chosen by the Government—the change of method would have to a considerable extent, enabled the large temporary increase in the India Office balance, dealt with in Section IX below, to be avoided. But I believe that, for the reasons given in Section IX, that increase has caused no disadvantage of any kind to India. And I am quite sure that (having regard to its very exceptional causes and the extreme improbability of their recurrence) it would have been unwise to make, for the purpose of avoiding it, a drastic change in financial practice involving serious immediate risk and loss to trade and to the Government and the possibility of similar risk and loss hereafter.

* See Supplementary Note II (page 26) on "Cost of Reducing Sales of Council Bills and substituting Remittances by Shipments of Gold."

D. *Reduction of India Office Disbursements.*—The expenditure chargeable to revenue consists almost entirely of fixed charges (interest, pensions, leave allowances, War Office charges), and of payments for stores required by the Government of India. It could not be reduced. The capital outlay on railways and irrigation works (the latter of small amount), and the payments for discharge of debt, could have been reduced. The consequences are discussed below.

E. *Increase of Loans.*—It may be assumed that up to a certain point an increase would have been possible. The consequences are discussed below.

35. I believe that, if a shortage of the Secretary of State's receipts from Council Bills to the extent shown in column 4 of the Table above had occurred from 1909-10 to 1913-14 owing to the adoption of closer restrictions on the sales, the course taken to make both ends meet would have been mainly, if not entirely, (*a*) to reduce the Capital Outlay on Railways, (*b*) to reduce the expenditure on the discharge of temporary debt, (*c*) to increase, or to attempt to increase, to some extent the issue of permanent loans. There can be no doubt that each of these measures would have had serious effects, not merely or mainly of a financial nature in the narrower sense, on the position of India both immediately and in the future. Those effects may be briefly indicated as follows:—

(*a*) The desirability of developing the Indian railway system as rapidly as (or more rapidly than) has been possible in the last few years has been recognised by the Secretary of State and the Government of India. Frequent representations have been made as to the inconvenience and loss caused to producers and merchants by the difficulty of coping with the traffic that offers. Moreover there are many districts, not now served by railways, to which railway communication would bring certainly an increase of prosperity and probably an increase of security against the worst consequences of drought. A reduction of the capital expenditure on railways would have meant at least the postponement of these advantages.

(*b*) A reduction in the amount of temporary debt discharged in the last few years would have reduced India's power of borrowing in London in

future years, and would therefore have involved in the future disadvantages of the same general nature as the reduction of capital outlay would have involved in the immediate present. It would also have involved one particular disadvantage of very great importance, viz.—the retention of obstacles which the course actually followed has removed, in the way of pursuing a liberal policy when famine next occurs. At such a time the issue of temporary loans in London is a most valuable resource for meeting the financial difficulties which must arise, and the extent to which it can be used on any particular occasion is largely governed by the amount of temporary debt then in existence.

(c) In view of the difficulties that attended the comparatively small issues (32,873,200*l.*) in London of Indian Government and Guaranteed Securities in the period from 1909–10 to 1913–14, there can be no doubt that any appreciable increase of their amount would have altered the position of such securities materially for the worse. This would have increased the difficulties in the way of future issues, and would therefore have led in the future to disadvantages of the kinds described in (*a*) and (*b*).

36. The above remarks set forth what, in my opinion, would have been the consequences of adopting in the period from 1909–10 to 1913–14 a different practice regarding the sales of Council Bills from that which has actually been followed. Assuming the correctness of my view as to the way in which the deficiency in the Secretary of State's resources caused by a reduction of the sales would have been met, it is clear that the economic development of India and its protection against the worst consequences of any future famine would have been seriously prejudiced. At any time hereafter a similar period may occur again, though I hope that the differences between the estimates of the Government of India and actual results will be less than in the period mentioned, so as to avoid certain consequences mentioned in Section IX below. In the event supposed, I think that the best interests of India will demand that the present practice regarding Council Bills be followed, viz., that (subject to not interfering with a flow of gold to India to the amount likely to be used by the public) they should be sold freely up to the amount that the Government of India can meet after providing adequately for requirements in India. This does not postulate anything as to the desirability or otherwise of the Government of India undertaking to meet in India larger or other requirements than now, *e.g.*, the supply of temporary accommodation for the Indian money markets. I recognise that such action, though disadvantageous if and in so far as it might reduce the capacity of the Government of India for meeting Council Bills, is not to be rejected merely on that account.* But this recognition does not in any way conflict with the view that the available resources of the Government of India, whatever they may from time to time be after providing for requirements in India, should be used fully and freely, as under the present practice, for meeting Council Bills, since otherwise the result must be either that gold will be uselessly and wastefully shipped to and fro between India and the rest of the world or that money will lie idle in Government Treasuries in India while expenditure for Indian purposes in London, which is now always urgently needed and will be so for as long as can be foreseen, will either not be incurred or will be met, if at all, from loans which, under existing practice are avoided.

* My own view is (1) that accommodation would be more advantageously granted to the money market in India from the Paper Currency Reserve (Section III above), and (2) that, even if granted from the Treasury Balances, it would alter the time, but not reduce the amount, of the sales of Council Bills.

IX

High India Office Balances from 1910 to 1913.

37. Up to this point I have dealt with the period from 1909–10 to 1913–14 as a whole, because this seems to me necessary for considering the effect of the present practice regarding the sale of Council Bills and of any change therein. But it is necessary to refer to a fact which is connected with, but not solely or mainly due to, that practice, viz., the high level at which the India Office balance stood for part of the period. Between February 1910 and September 1912 they stood above 10,000,000*l.* This fact and its connection with the sale of Council Bills have given rise to criticism of a kind illustrated

by the following extracts from an article published by the "Times" on 4th November 1912 from "an Indian Correspondent" —

"Let us see for a moment what this accumulation of Indian money means It means that many millions sterling of Indian money have been improperly withdrawn from India They represent sums extracted from the taxpayer in excess of the requirements of the State, capital withdrawn from India for use in London and there used, not in pursuit of Indian interests but for the convenience of joint stock banks trading on inadequate gold reserves

There is therefore no justification for the sale of a single bill by the Secretary of State beyond the actual amount which he needs to discharge his obligations in London But these excessive sales of bills are a convenience to the exchange banks which have to remit funds to India, and it is often cheaper for them to buy bills than move bullion They also afford a means of obstructing the natural flow of gold to India, and in this way allay the terrors of those joint stock banks who realise the inadequacy of the London gold reserves, and are not averse to protecting them at the expense of the Indian taxpayer These, of course, are reasons which cannot be avowed

For long the Chairman of the Finance Committee at Whitehall was Lord Inchcape He at least had Indian experience, although it was altogether out of date, and large interests in India, though he was *never regarded in India as in any sense of the word a representative* of Indian interests Lord Inchcape was succeeded as Chairman by Sir Felix Schuster, who is assisted by Mr Currie and a civilian who has no direct knowledge of Indian conditions No one questions for a moment the integrity of these gentlemen, but it is quite obvious that the interests which they most directly represent, and the environment by which they are most likely to be influenced, are not Indian interests The thought always uppermost in their minds must be the position of the great joint stock banks Now the distinguishing feature of the English joint stock banks is that they do an enormous business on a ridiculously small cash reserve, and that although great financiers in succession have pointed out the dangers of the situation, the banks have refused to share any portion of the burden of strengthening it It is very convenient to these banks to have 40 millions of Indian money locked up in London, and to receive large loans from it, with or without security, at low interest When the Finance Committee turn for advice, it is on the exchange banks that they lean The interests of these banks are bound up with cheap remittances to India, it is nothing to them if Indian interests suffer, or if the Indian taxpayer pays Small wonder is it if, ground between the joint stock and the exchange bank, Indian interests have been reduced to powder and she has been compelled to see her resources diverted to the bolstering up of depreciated securities, to financing the City, and frequently to arresting the natural flow of bullion to her shores"

38 This and similar statements seem to rest on the assumption that the Secretary of State has adopted a policy of retaining in London a balance greatly in excess of the amounts needed to meet his requirements This assumption is incorrect Its incorrectness is shown by what is said in Section VII, and by several of the Statements that I am submitting, but most conveniently and briefly in Statement G of Appendix II, headed "Summary of India Office Transactions 1909-10 to 1913-14" (page 83) That Statement exhibits the following facts —

A The Budget Estimates from 1909-10 to 1913-14 provided for the reduction of balances as follows —

	Estimated opening Balance	Estimated reduction	Estimated closing Balance
	£	£	£
1909-10	7,697,989	4,369,300	3,328,689
1910-11	12,739,297	7,473,400	5,265,897
1911-12	16,055,518	7,317,300	8,738,218
1912-13	18,320,649	11,598,800	6,721,849
1913-14	8,372,900	4,280,500	4,092,400

B In 1909–10, 1910–11, and 1911–12 the balance was increased during the year, instead of being reduced, as estimated, and in 1912–13 the reduction was of less than the estimated amount

By far the most important cause of the difference between the Budget Estimate and actual results was the excess of the receipts from Council Bills over the estimate framed by the Government of India, at the beginning of each year, of the amount that they could meet The excesses were as follows —

	£
1909–10 - - -	1,806,586
1910–11 - -	8,138,303
1911–12 - - -	9,245,216
1912–13 - -	10,160 000 (of this 7,060,000*l* may be regarded as drawings against silver coined during the year)

The causes to which they were due are shown in Statements A and E of Appendix II (pages 67–73 and 81)

C In 1910–11 a part of the increase in the receipts from Council Bills was used for the discharge of 1,000,000*l* debt not provided for in the Budget, and similarly in 1911–12 and 1912–13 the issues of loans were reduced by 1,639,897*l*, and 1,315,000*l* respectively below the Budget estimates

A fact that is not exhibited by Statement G (page 83), is that the reason for not using in a similar way a larger portion of the excess receipts from Council Bills in the year in which they occurred, is that the information that the Government of India were able to supply, as to the probability of their occurrence was on each occasion very incomplete until nearly the end of the year, when either the loan programme of the year was complete, or the time at which it was possible to discharge additional temporary debt had passed by, so that, to a great extent, as explained on page 13, the excess receipts had to be used for the discharge of debt or the reduction of new issues in the year after that in which they accrued A considerable amount of detailed information on this point is given in the "Memorandum "on India Office Balances," recently presented to Parliament (Cd 6619), which it is probably not necessary to repeat here but it may be useful to reproduce from the Memorandum (pp 11–12) the following sentences —"In 1910–11 and 1911–12 a large part of the increase of receipts "occurred late in the year If it had occurred earlier, the effect would have "been that the Secretary of State would have been able to alter somewhat the "time of discharge of temporary debt The total amount discharged in the "three years (1910–11 to 1912–13), would not have been greater, since by 31st "March 1913 all the temporary debt maturing by that date will have been "paid off, but the final instalment of India Bills would have been paid off in "June 1912 instead of in December"

39 What has been said above is enough to show that the Secretary of State has not adopted a new policy of the kind assumed in the statement quoted at the beginning of this section, and that the high level at which the India Office balance stood in some recent years is due to following established practice in a period in which, for several years in succession, the resources accruing year by year to the Government of India differed by an exceptionally large amount from the Budget Estimate

40 The question arises whether the possibility of this result is a reason for altering the existing practice regarding the sale of Council Bills On this question I venture to offer the following remarks —It is, I think, clear from what is said in Section VII that a change in the existing practice would be substantially injurious to important Indian interests If so, it ought not to be changed unless the disadvantages of its continuance are serious The disadvantages which, as far as I have observed, are imputed to the present practice, are as follows —

(1) The suspicion which is said to be aroused in India when the Secretary of State's balances rise as high as they have done in recent years Regarding this, there are two points to be noticed (A) The "Times" stated on 20th January 1913, with reference to the series of articles published by it in November 1912, from which the extracts quoted above

are taken, that "Generally, it may be said that careful examination of the "files of the principal Anglo-Indian newspapers for the last two or three "months shows that, while the views of our Anglo-Indian correspondent "have altogether failed to secure widespread support, our contention in "connection with them that the whole problem of Indian financial manage-"ment should be re-examined by an independent and representative "commission is supported in influential quarters, and is not contested by "any important organ of Anglo Indian opinion" My own reading of the Indian newspapers, including the reports of meetings of Chambers of Commerce, strongly confirms the impression that the views quoted from the "Times" early in this section are not widely held (B) The divergences between the estimates of the Government of India and the actual results of the various years from 1909-10, which have been the chief cause of the Secretary of State's high balances, have been due to a considerable extent (as shown in Section V) to one exceptional cause that is not likely to recur

(2) It is alleged that the present practice regarding the sale of Council Bills prevents the Government of India from placing money at the disposal of trade by way of deposits with the Presidency Banks or loans It will be seen from what is said on pages 4 and 5, that, if such action by the Government of India is desirable, it is quite practicable without any change regarding the sale of Council Bills

(3) It is also alleged that the present practice regarding Council Bills prevents gold from going to India in amounts sufficient to satisfy the public demand With reference to this contention I submit the following figures extracted from Statement II (pages 84-5), relating to a period in which the sales of Council Bills were exceptionally heavy —

—	Imports of Sovereigns	Absorption of Sovereigns by the public during the year	Sovereigns held at end of year in Government Treasuries and Reserves at disposal of public in exchange for Rupees
	(1)	(2)	(3)
1909-10	9,241,000	2,874,000	6,425,000
1910-11	8,540,000	8,103,000	6,484,000
1911-12	18,342,000	8,884,000	15,828,000
1912-13	17,795,000	11,101,000	19,963,000

It will be noticed that in each year the importation of sovereigns (Col 1) exceeded the absorption by the public (Col 2) and that at the end of each year there has been a substantial amount held by the Government at the disposal of the public to be exchanged for rupees The amount so held on 31st March 1913 was higher than at the corresponding date in any previous year, and was sufficient to supply the demands of the public for 2½ years at the average rate of annual absorption shown in column 2 It will also be observed from Statement II that the absorption of sovereigns during the twelve years to which the Statement refers amounted to 60,066,000*l* In view of these figures it seems scarcely necessary to discuss further the contention under consideration

Supplementary Note I

Alternative methods of Regulating amount of Sales of Council Bills and Transfers

41 In the foregoing Memorandum the existing method of regulating the amount of Council Bills and Transfers sold in each year is explained I believe that this method is far more conducive to the interests of India than any that could be substituted But it is obviously desirable to consider what are the possible alternative methods and what would be the effect of the adoption of each of them

The objects of the present Supplementary Note are to set forth the alternative methods that appear either to be advocated by the critics of the existing methods whose views I have seen, or, whether so advocated or not, to be possible subjects of reasonable discussion, and to submit the results of calculations as to the effect that their adoption from 1909–10 would have had in reducing the amount available from the proceeds of Bills for the general purposes of the Secretary of State

I have disregarded in the calculations on which this note is based the sales of Council Bills of which the proceeds have been used, not for General Purposes (including purchase of silver), but for additions to the Gold Standard Reserve and the Paper Currency Reserve in England, since the disadvantages of not selling these Bills, though very considerable, would have been of a different nature from those (described on pages 19 and 20 of the Memorandum) attending the reduction of the amount sold for General Purposes

I

To fix Budget Estimate of Council Bills at Amount of Home Charges and Actual Sales at Amount of Budget Estimate

42 I gather from the perusal of controversial writings that one alternative method of regulating the sale of Council Bills that is occasionally contemplated as possible, is that the Budget of each year should provide for the sale of bills and transfers of the estimated amount of the Home Charges, *i e*, the net expenditure of the India Office chargeable against revenue, and that the actual sales of each year should be of this amount

43 This is an impossible scheme for the following reasons —

(*a*) A normal Indian Budget provides for revenue to be received, almost entirely in India, of an amount approximately equivalent to the expenditure in India and England chargeable against revenue, so that, if the Government of India had only revenue transactions to consider, it would be able in a normal year to provide for remittance to England the equivalent of the total net expenditure in England chargeable to revenue As a matter of fact there are also very important capital transactions partly in England and partly in India, and in some years the estimate of capital outlay in India exceeds by a considerable amount the estimated resources that can be provided in India towards meeting it In such years the estimated amounts that can be provided by the Government of India for meeting Council Bills may fall short considerably of the estimated net expenditure chargeable to revenue in England so that provision must be made in the Budget for the deficiency in England to be made good from the proceeds of loans or by reduction of the India Office balance. This is illustrated by the following figures which compare

the estimated sales of Council Bills for General Purposes with the estimated Home Charges from 1909–10 to 1913–14 —

Budget Estimates of Home Charges and Council Bills

——	1909-10	1910-11	1911-12	1912-13	1913-14
	£	£	£	£	£
Home Charges (net)	18 717,000	19,051,500	19,105,400	19,298,400	18,786,100
Receipts from Council Bills	16,200,000	15,500,000	15 825,000	15,500,000	21,650 000

(*b*) There are years in which owing to unfavourable trade conditions, reducing the trade demand for Council Bills, the Secretary of State cannot sell bills up to the amount of the Home Charges, even if he has budgetted to do so and if the Government of India have the funds that would be required to meet the bills if sold

II

To limit actual Sales of Council Bills to amount of Home Charges

44 A possible variant of this scheme, which is at any rate practicable, is that in each year the remittances from India, without being limited to the amount of the Budget estimate, should not be allowed to exceed the amount of the Home Charges

If this had been in force from 1909–10 the Sales of Council Bills for General Purposes from that year to 1913–14 inclusive would have compared as follows with the actual amounts —

——	(1) Actual Sales for General Purposes	(2) If limited to Home Charges	(3) Difference (Col 1—Col 2)
	£	£	£
1909–10	18,006,586	18,006,586	—
1910–11	23,638,303	18,606,000	5,032,303
1911–12	25,070,216	18,866,000	6,204,216
1912–13	25,660,000	19,438,000	6,222,000
1913–14 (Budget Estimate)	21,650,000	19,579,000	2,071,000
	114,025,105	94,495,586	19,529,519

These figures show that, if the suggested alternative had been in force during the period to which the figures refer, the Secretary of State's receipts for General Purposes would have fallen short by 19,529,519*l*, which would have had to be made good from some source other than Council Bills But it may be assumed that, if the sales of Council Bills had been limited in the manner suggested, the 7,060,000*l* paid for silver in 1912–13, which was obtained from the sale of Bills, would have been made from the sterling portion of the Paper Currency Reserve This reduces to 12,469,519*l* the deficiency to be made good from other sources

III

To base Budget Estimate on forecast of what Secretary of State can sell, and Government of India can meet, and to limit sales to amount of this Estimate

45 A third alternative is that the Budget estimate of Council Bills should be drawn up in each year so as to provide for the sale of as many Bills as the Government of India estimates to be able to meet and the Secretary of State estimates to be able to sell, and that this estimate should not be exceeded

46 The following figures have been prepared to show the amount that the Government of India would have been able to estimate to meet in each year from 1909–10, on the assumption that the amount for each year would have consisted of what was actually estimated under the existing practice *plus* the extra sum that the Government of India would have had in hand at the beginning of the year owing to the reduction in the manner suggested of the bills drawn on them during the preceding year or years, subject, however, to the further assumption which can be made with complete confidence, viz., that both the Secretary of State and the Government of India would have thought it necessary to limit the Budget Estimate of the sales of bills in each year to the amount for which there is likely to be a demand in a prosperous year. To neglect such a precaution when framing the financial arrangements for the coming year would be to incur the risk of complete financial confusion owing to a shortage of the sale of bills as compared with the estimate, and this is a risk which could not have been run without the greatest imprudence. I have taken the limit in question at 22,000,000*l*, which exceeds the highest Budget estimate of Council Bills ever adopted.

47 On the assumptions mentioned, the sales of Bills for General Purposes that would have taken place from 1909–10 to 1913–14 compare as follows with the actual sales in 1909–10 to 1912–13 and the Budget for 1913–14:—

—	(1) Actual Sales for General Purposes	(2) Sales that would have taken place on conditions and assumptions used in this Section	(3) Difference (Col. 1 – Col. 2)
	£	£	£
1909-10	18,006,586	16,200,000	1,806,586
1910-11	23,638,303	17,306,586	6,331,717
1911-12	25,070,216	22,000,000	3,070,216
1912-13	25,660,000	22,000,000	3,660,000
1913-14 (Budget estimate)	21,650,000	22,000,000	*−350,000*
	114,025,105	99,506,586	14,518,519

Thus the shortage to be made good from sources other than the sale of Council Bills would have been 14,518,519*l*, which would have been reduced to 7,458,519*l*, if the silver bought in 1912–13 had been paid for by the transfer of gold from the Paper Currency Reserve.

IV

To regulate sales so as to prevent closing balance of India Office from exceeding 4,000,000l

48 The last of the possible alternative methods of regulating the sale of bills appears to be that the Secretary of State should so regulate his financial arrangements that the closing balance of each year should be a fixed sum, say, 4,000,000*l*. If this method were adopted there would obviously be no possibility of drawing sums from the balances in the course of the year to make good a deficiency in the receipts from Council Bills and loans, so that it would be necessary in each Budget (*a*) to avoid placing the estimate of Council Bills higher than the amount for which a demand can be expected in a fairly prosperous year, (*b*) to estimate for the issue of loans to the full amount of the excess of total disbursements over the estimated receipts from Council Bills and miscellaneous sources. Moreover, in view of the low level at which the cash balance would ordinarily stand, and of the danger of postponing the issue of loans estimated to be required for the service of the year beyond the favourable early months of the year, the prudent (and presumably the ordinary) practice would be to issue in the first half of the year the full estimated amount of loans. If late in the year it became apparent that expenditure would be below the estimate, the sales of Council Bills would be reduced below the Budget Estimate so as to

prevent the closing balance from exceeding 4,000,000*l* On this basis and the assumptions—

(1) that the estimate of Council Bills would not in any year have been higher than 22,000,000*l*, and

(2) that the silver bought in 1912–13, so far as it could not have been paid for from the proceeds of the sale of Bills or from the receipts, estimated for in the Budget under other heads, would have been paid for with gold withdrawn from the Paper Currency Reserve,

I have calculated—

(1) That the sales of Council Bills for General Purposes under the suggested system from 1909–10 to 1913–14 would have compared as follows with those actually made (or estimated to be made in 1913–14) under the existing system —

——	(1) Actual Sales	(2) If regulated so as to prevent closing India Office balance from exceeding 4,000,000*l*	(3) Difference, (Col 1 – Col 2)
	£	£	£
1909–10	18,006,586	15,126,800	2,879,786
1910–11	23,638,303	17,228,786	6,409,517
1911–12	25,070,216	20,594,997	4,475,219
1912–13	25,660,000	25,660,000	—
1913–14 (Budget Estimate)	21,650,000	22,000,000	– *350,000*
	114,025,105	100,610,583	13,414 522

(2) That, under the conditions supposed, 3,931,200*l* would have been withdrawn in gold from the Paper Currency Reserve in England towards paying for silver in 1912–13, and would thereby have served towards making good the shortage shown in the table just given

49 It is possible that the conditions mentioned at the beginning of this section would have been departed from to the extent that some of the loans that would have been included in the Budgets of the various years under this scheme would not have been issued, and that the equivalent of the receipts anticipated from them would have been obtained late in the year by additional sales of Council Bills, which might then have been effected without raising the closing balance of any year above 4,000,000*l* So far as this took place, it would have reduced the deficiency of the sales of Council Bills under the suggested system, as compared with those that have actually been made under the existing system below the amount given in the third column of the Table above But, having regard to the smallness of the balance that would ordinarily have been at the disposal of the India Office under the system now being discussed, and to the manifold uncertainties that have attended the financial position in the period from 1909–10, the abandonment or postponement of loans estimated to be necessary for the needs of each year would have involved great risk and would presumably not have occurred to any large extent Any allowance for the possibility of such abandonment must clearly be conjectural, and any reasonable conjecture must place the figure low

Supplementary Note II

Cost of reducing Sales of Council Bills and substituting remittances by Shipment of Gold

A

50 The object of the present Note is to calculate as closely as conditions allow the loss to the Government that would have been incurred if, in place of the practice that has been, and is being, followed in respect of the sales of Council Bills and Transfers from 1909–10 to 1913–14, the following course had been adopted —

1 Reduction of the sales of Council Bills and Transfers to the extent shown in the various sections of Supplementary Note I

2 Making good the consequent deficiency in the Secretary of State's resources partly (to the extent mentioned in that Note) by the "unearmarking" of gold (*i e*, its transfer from the portion of the Paper Currency Reserve held in England), and partly by the shipment of gold by the Government of India to the Secretary of State when necessary to prevent his closing balance in any year from falling below (approximately) 4,000,000*l*

B

51 It is necessary to consider—

Loss directly due to the substitution of one method of remittance for another

Loss of interest due to the location in India of part of the total balance that was actually held in England

C

Loss directly due to the substitution of one method of remittance for another

52 This arises under two heads —

(1) When sovereigns are sent to India to be exchanged for rupees, the rate at which the exchange is effected is 1*s* 4*d* per rupee The average rate at which Council Bills and Transfers were sold from 1909–10 to 1912–13 was 1*s* 4·061*d* (approximately 1*s* $4\frac{1}{16}d$) Thus the substitution of the former method of remittance for the latter in respect of a portion of the total remittances would have caused in the first instance a loss to the Government of the premium of ·061*d* per rupee (or ·38125 per cent), unless the change had brought about a compensating increase in the premium on the remainder of the remittances, which would still have been effected by means of Council Bills There is no sufficient reason for assuming that this would have been the case since, as shown in the Note which Mr Newmarch is submitting,* the rate of 1*s* 4·061*d* (1*s* $4\frac{1}{16}d$) is one at which remittances of gold compete effectively with remittances by Council Bills

(2) The shipment of gold by the Government of India to the Secretary of State would have involved a loss of approximately ·5 per cent for cost of freight and insurance

* *See* Appendix VII (page 220)

53 Applying these percentages to the amounts shown in the several sections of the Supplementary Note on "Alternative Methods, &c," the loss directly due to the substitution of one method of remittance for another may be calculated as follows —

Table I

—	Loss of premium at 38125 per cent on Amount of Reduction of Sales		Freight and Insurance, at 5 per cent on Shipments of Gold to make good Reduction of Sales less portion assumed in Supplementary Note I to be made good by "unearmarking" of Gold		Total Loss, Col 2 + Col 4
	Amount of Reduction (1)	Loss (2)	Amount of Shipments (3)	Loss (4)	(5)
	£	£	£	£	£
Section II of Supplementary Note	19,529,519	74,456	12,469 519	62 347	136,803
Section III " " -	14,518,519	55,352	7,458,519	37,292	92,644
Section IV " "	13,414,522	51,142	9,483,322	47,416	98,558

D

Loss of Interest in England due to the Location of part of the Balance in India

54 The average India Office Balance (calculated from the monthly closing balances) in the years 1909–10, 1910–11, 1911–12, 1912–13, and 1913–14 (Budget estimate), the approximate rate of interest earned, and the total interest earned, are shown in the following Table The figures in columns 1, 2, 3, and 5 for the first four years are actuals, the rate of interest (Col 5) for those years is obtained by distributing the total interest earned over the average balance shown in column 1, the average balance for 1913–14 is taken at the mean between the estimated opening and closing balances, the portion not earning interest in 1913–14 at the equivalent (approximately) of the corresponding figure for the preceding years, and the rate of interest in 1913–14 at the average rate of the preceding four years —

Table II

—	Average Balance		Total	Rate of Interest per Cent	Interest Earned
	Earning Interest * 1	Not Earning Interest * 2	3	4	5
	£	£	£		£
1909–10 - - -	7,478 650	1,103,690	8,582,340	1 739	130,070
1910–11 - -	13,146,482	1,128,708	14,275,190	2 760	362,880
1911–12 - -	15,638,357	1,095 618	16,733,975	2 405†	376,053
1912–13 - -	10 952,913	1,033,877	11 986,790	3 398	372,170
1913–14 (Budget Estimate)	5,338 314	1 100 000	6,438,314	2 575	137,462
					1,378,635

* The amounts in column 1 are somewhat greater, and those in column 2 correspondingly less, than they would be if the averages were based on the figures of each day instead of on those for the last day of each month This is due to the fact that on the evening of the last day of some months, the balance held at the Bank of England, and therefore not earning interest, must be exceptionally high, to provide for large payments to be made on the following day

† This rate differs slightly from the "average approximate" rates given on 22nd March 1912 in reply to a question in the Viceroy's Legislative Council on 22nd March 1912 (*see* page 13 of "Memorandum on India Office Balances"—Command Paper 6619 of 1913), viz —2 60 per cent on loans to approved borrowers and 2 43 per cent on deposits These rates were given before the end of the financial year to which they refer

55 The reduction of the Sales of Council Bills to the extent shown in the various sections of Supplementary Note I on "Alternative Methods, &c.," would have reduced the closing balances in the various years if no special measures had been taken to replenish them such as transfer of gold from Paper Currency Reserve in England or shipment of gold from India to the following amounts :—

Table III

—	Section II of Supplementary Note I on "Alternative Methods, &c."	Section III	Section IV
	£	£	
1909–10	12,799,091	10,992,515	No figures can be given as the conditions in Section IV imply that the closing balance of each year would have been kept at 4,000,000*l*, if necessary by loans
1910–11	11,664,687	8,558,688	
1911–12	7,153,494	7,181,491	
1912–13	*−8,671,311**	*−6,081,311**	
1913–14	*1[illegible],157,096*	*−10,126,096*	

* These figures are based on the actual closing balance of 1912–13, which differs by 111,307*l*. from the Revised Estimate given in Statements A, B and C of Appendix II (pages 67, 72 and 81).

56 If, in the years when replenishment would have been necessary, it had been effected by the "unearmarking" of gold (to the extent assumed in the various sections of the Supplementary Note on "Alternative Methods, &c."), and the shipment of gold from India, to the total amount shown in Table I above, and if, as assumed in Section A above, these operations had been timed so as to bring the closing balances in the years in which they were effected to (approximately) 4,000,000*l*., the closing balances of the various years would have been as follows :-

Table IV

—	Section II	Section III	Section IV
	£	£	£
1909–10	12,799,091	10,992,515	4,000,000
1910–11	11,664,687	8,558,688	4,000,000
1911–12	7,153,494	7,181,491	4,000,000
1912–13	4,000,000	4,000,000	4,000,000
1913–14	4,092,423	4,092,423	4,000,000

57 Taking the opening balance of 1909–10 at the figure at which it actually stood (7,983,898*l*.) and assuming that the average balance of each year would have been the mean between the opening and closing balances, and that, as in Table II, approximately 1,100,000*l* would not have been earning interest, then the interest that would have been earned at the rates that were actually realised in the first four years, and at a rate for 1913–14 based on the average rate for the four preceding years, would have been as follows :—

Table V

—	Average Balance earning Interest			Rate of Interest earned	Amount of Interest earned		
	Section II of Supplementary Note on "Alternative Methods, &c"	Section III	Section IV		Section II	Section III	Section IV
	£	£	£	p c	£	£	£
1909-10 -	9,291,500	8,388,250	4,891,950	1 739	161,579	145,872	85 071
1910-11 -	11,131,900	8 675,600	2,900 000	2 760	307,240	239,447	80,040
1911-12	8,309,100	6,770,050	2,900,000	2 405	199,831	162,820	69,745
1912-13 -	4 476,750	4,490,700	2 900,000	3 398	152 120	152,594	98,512
1913-14 -	2 946,200	2 946 200	2,900 000	2 575	75,835	75,865	74,675
			Total -	-	896 638	776,598	408,073

58 Thus, in addition to the loss directly due to the substitution of one method of remittance for another, there would have been a loss of interest as follows —

		£	£	£
Section II	- -	1,378,635 −	896,638 =	481,997
" III	- -	1,378,635 −	776,598 =	602,037
" IV	- -	1,378,635 −	408,073 −	970,562

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59 The gross loss due to the causes dealt with in C and D above would have been as follows —

Table VI

—	Section II of Supplementary Note on "Alternative Methods, &c	Section III	Section IV
	£	£	£
Loss due to substitution of one form of remittance for another	136,803	92,644	98,558
Loss of interest on Balance in England -	481 997	602,037	970,562
Total -	618 800	694 681	1,069,120

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60 It may perhaps be considered that the loss shown should be reduced by allowing for interest that would have been earned on loans that would have been granted from the portion of the general balance held in India Apart from the fact that this policy has not been actually introduced, I think that no such allowance should be made because I am of opinion, for the reasons stated in my main Memorandum, that by far the best source for loans in India is not the general Treasury balance of the Government of India, but the Reserve of the Paper Currency Department in India and it is probable that any amount that could be advantageously lent in India could be provided from this source In case, however, it be thought necessary to assume that loans would have been granted in India from the additional amounts that

would have been held in the Treasury balances in India under the conditions supposed in this note, I submit the following calculation regarding these amounts —

Table VII.

—	Addition consequent on reduction of Payments to meet Council Bills			Deduct amount of Gold that would have been shipped or unearmarked (the latter involving reduction of Indian Treasury Balances)			Net addition to Indian Treasury Balance		
	Section II	Section III	Section IV	Section II	Section III	Section IV	Section II	Section III	Section IV
	£	£	£	£	£	£	£	£	£
31 Mar 1910		1,806,580	2,879,786	—	—		—	1,806,580	2,879,786
" 1911	5,032,303	8,135,303	9,280,303		—	—	5,032,303	8,135,303	9,280,303
" 1912	11,236,519	11,208,519	13,761,522		—	3,114,303	11,236,519	11,208,519	10,6[illegible]0,219
" 1913	17,158,519	14,808,519	13,764,622	12,671,111	10,081,111	7,244,722	4,781,205	1,781,205	6,[illegible]
" 1914	19,529,519	14,518,519	13,111,522	19,529,519	14,518,519	13,111,522	—	—	—

61 In calculating the interest that might have been earned in India on these additions to the Indian balances, it is necessary to bear in mind (1) that the amount which could be advantageously and safely lent in India is limited, and (2) that owing to the well-known seasonal character of Indian trade, the loans would probably have been sought during only a part of each year The following figures show approximately the total interest that would have been earned in India if (subject to a maximum of 3,000,000*l* in any one year) the net additions to the Indian balance shown above had been lent, in the years in which they are supposed to have accrued, at 6 per cent per annum for six months —

	£
Scheme in Section II of Supplementary Note on "Alternative Methods, &c" - -	270,000
Scheme in Section III - -	321,000
Scheme in Section IV - - - -	356,000

APPENDIX II

Correspondence and other Official Papers to accompany the Memorandum and Supplementary Notes on the Location and Management of General Balances of Secretary of State, and Sale of Council Bills and Transfers, handed in by Mr L Abrahams, C B, Assistant Under Secretary of State for India

No 256, dated 30th June 1871

From—The Government of India
To—H M 's Secretary of State for India

We have postponed consideration of the Bill for the regulation of the Presidency Banks and of the agreements depending upon it, pending receipt of the decision of Your Lordship in Council on the question of the agency of the Bank of Bengal in Bombay, in regard to which we forwarded with our despatch of the 9th January, No 17, a letter from the Directors of the Bank of Bengal

2 The strain to which our finances were exposed early this year has given us the advantage of an experience which we had not when the terms of the new agreements were last under our consideration

3 We have been much impressed with the consideration that the effect of the existing agreements with the banks which compels us to place all the cash balances belonging to Government in their hands leads to consequences which may be very inconvenient, if not worse, both to Government and to trade

4 The only use of these balances to Government is that they may be made available the moment the public service requires them

5 We have had no difficulty in regard to the balances in the hands of the Banks of Bengal and Madras, the Bank of Bombay, however, protested against meeting drafts upon it, and on the urgent representations of the Governor of Bombay we were obliged, on the 29th January, to allow a month's time before drawing

6 The Bank of Bombay, accustomed to high Government balances, and relying on the maintenance of those balances had so employed them that they were practically locked up, for had we insisted on withdrawing them more suddenly we should have done so in the face of a warning that we should produce a commercial crisis, and therefore for a time the Government balances at Bombay were useless for the purposes of the Government

7 We think it doubtful, moreover, whether it is any real advantage to trade that large Government balances should be kept in the hands of the banks It appears to us that an element of uncertainty is thereby introduced into the money market not unlikely to aggravate commercial difficulties at a time of tightness

8 An amount of capital which is large relatively to the whole capital engaged in trade at the Presidency towns is supplied by Government, but Government for reasons quite unconnected with trade, may have to withdraw these balances suddenly

In this case a sudden demand ensues for capital to replace that which is thus removed, the rate of discount rises, not from any commercial reason, but from the accident of State necessities, and if this should occur at a time of commercial pressure it would precipitate a crisis which otherwise might not occur If Government did not supply this capital to the trade it would be found by private individuals through banks or in some other way

9 Had the Government funds in the hands of the banks in January last been limited to a fair working balance, and had we had a reserve in our own hands, we think it may be assumed that the market rise in the rates of discount which has occurred would not have taken place, and our business would have been transacted without disturbing trade operations

10 The resources of a large money market are not open to us, and we do not think it would be safe to trust to being able to raise funds readily and immediately in India The amount (350,000*l.*) that we wanted in January out of our balance of about a million with the Bank of Bombay, and the demand for which brought down the remonstrance that we should place in jeopardy the trade of Bombay, cannot be considered as large Calcutta may have larger resources, but we cannot suppose that even here the supplies immediately available are really considerable

11 We are of opinion that a Government subject to the contingencies to which the Government of India is exposed ought not to be without a reserve, and that this reserve should be in its own hands

12 This object might be attained by dissolving our connection with the banks and re-establishing our treasuries We are unwilling to take this course unless forced to do so the banks are useful institutions, and the Bank of Bengal especially has upon several occasions been of great assistance to the Government

13 We should prefer, as an alternative plan, to make a change in the agreements with the banks, so that instead of giving them the right to hold all the Government balances the stipulation may be confined to engaging to pay them interest when our balances are reduced below certain amounts

If it be necessary to go further than this we might stipulate that the banks should have the use of our balances up to certain limits, after which we should be unfettered as to their employment The exact sums to be fixed in connection with the proposed stipulations would be settled in communication with the banks

14 The amount to be kept in reserve need not, in our opinion, be very large, as the main difficulty is one only of time The sense of security which we should derive from the possession of a reserve of two millions immediately available for any emergency would, in our judgment, amply repay the charge for interest on that amount

No 225, dated 6th May 1875

From—The Secretary of State for India (Lord Salisbury)
To—The Government of India

1 I have considered in Council the following communications from your Government—

Financial letter dated 9th January 1874, No 17,
Telegram dated 9th January 1874,
„ „ 2nd February 1874,
Financial letter dated 6th February 1874, No 41,
„ „ 6th February 1874, No 42,
„ „ 13th March 1874, No 77,
„ „ 24th April 1874, No 142,
„ „ 30th June 1874, No 256,

relative to proposed modifications of the agreements with the Presidency Banks for the conduct of the Government business, and the withdrawal of the Agency of the Bank of Bengal at Bombay

2 I have also had before me letters from Mr J B Norton, dated the 9th March 1874, and from Messrs Marshman, C S I, and E H Lushington on behalf of the shareholders of the Bank of Bengal, dated the 17th of the same month, on the subject of the continuance of the Bank of Bengal's Agency at Bombay Copies of those letters are forwarded herewith for your information

3 Your letters Nos 17 41, 42, 77, and 142, as well as the telegrams of the 9th January and 7th February 1874, refer to the proceedings of the Agency of the Bank of Bengal at Bombay, and of the New Bank of Bombay

4 In your letter of the 30th June you state that you "have been much impressed "with the consideration that the effect of the existing agreements with the Banks "which compels us to place all the cash balances belonging to Government in their "hands, leads to consequences which may be very inconvenient, if not worse both to "Government and to trade," and you are of opinion that, having regard to the contingencies to which the Government of India is exposed you ought not to be without a reserve of cash in your own hands That object, you remark, might be attained by dissolving your connection with the Banks, and re-establishing Government Treasuries, but you "are unwilling to take this course unless forced to do so, the "Banks are useful institutions, and the Bank of Bengal especially has, upon several "occasions, been of great assistance to the Government"

5 Under the present agreements with the Presidency Banks, in each of which Government is a shareholder, and is now represented on the Boards of those of Bengal and Madras as it was formerly also on that of Bombay by Directors of its own choosing, Government undertakes, though without penalty for failure, to keep average balances as follows —

	£
In the Bank of Bengal - - - - -	700,000
„ „ Madras - - - -	250,000
„ „ Bombay - - - - -	400,000

And at the head-quarters of the Banks Government is bound to pay interest whenever its balances fall below the following minima —

	£
With the Bank of Bengal - - -	450,000
„ „ Madras - - -	200,000
„ „ Bombay - - -	250,000

6 Direct payments are also made to the Banks, viz —

	Bengal	Madras	Bombay
	Rs	Rs	Rs
1 For General Treasury duties at Head Office (annually)	43,606	12,000	12,240

2 For Savings Banks (all alike), three-eighths per cent on the aggregate balance of deposits at the close of the preceding year, and 8 annas a year upon each active account

3 Packing and despatching treasure (all alike) - -	Actual charges		
	Rs	Rs	Rs
4 For public debt, for each crore on the register -	3,500	1,000	1,000

Government, moreover, undertakes that the payments that would formerly have been made into the treasuries at Calcutta Madras, and Bombay, and local treasuries, shall be made into the Presidency Banks and the branches thereof, where established with the sanction of Government, and you* state that "the entire public balances, however "large they may be, at the Branch Banks, are "at the disposal of the Banks which receive no "other remuneration for doing the Government "business at the branches The Government is not bound to keep up any minimum

* Financial letter from the Government of India, dated the 9th June 1873, No 231

"balance at any branch but it undertakes to instruct its officers not only not to overdraw "their account at the branches, but always to provide a margin at their credit and "also that the balance at any Branch Bank is not to be reduced below what it would be "necessary to keep in the Government Treasury at the same place were there no agree"ment with the Bank" On the other hand the Banks are at present restricted both as to the nature and the field of their business

7 It has been decided that the Government shall cease to hold shares in these Banks and shall have no part in the Direction But you propose that the law shall still impose on the Banks certain special restrictions They are still, as now to be prohibited from certain hazardous branches of business and their field of operations is, as at present to be subject to the consent of the State On the other hand you would so far alter the present agreements that "instead of giving the Banks the right "to hold all the Government balances, the stipulation may be confined to engaging to "pay them interest whenever our balances are reduced below certain amounts

8 The connection which has thus existed between the State and the Banks has from time to time been the cause of very serious embarrassment It has produced a general impression that the State is responsible both for the good conduct and and prosperity of the Banks, and when any of them has been involved in difficulty or danger, there has been a disposition to claim, as of right, assistance or even indemnity, from the Government of India

9 The controversy which has arisen between the Bank of Bombay and the Bank of Bengal in a great degree arises out of this misconception It has been thought wise so far to limit the natural competition between the two Banks as to prohibit either from setting up branches beyond the limits of its own Presidency This policy whatever its merit, has been adopted on public grounds The public balances have formed so large a part of their resources that these might, it was believed have been endangered, if they had been made the instruments for maintaining unrestricted competition But no private rights to Government protection were created by this provision, and it affords no foundation for the claim that the Bank of Bengal shall be compelled, against its own strenuous remonstrances, to employ the Bank of Bombay exclusively as its agent at Bombay

10 The expectations unfortunately engendered by the close connection existing between the State and the Presidency Banks were the cause of an inconvenience almost amounting to a public danger, which was experienced by Your Excellency's Government in January of last year, and which is much dwelt upon in the despatches before me The strain upon your finances arising out of the famine compelled you to draw at that time for 35 lakhs upon the Bank of Bombay Accustomed to high Government balances, and relying on the maintenance of those balances, the Bank had so employed them that they were practically locked up You were met by an urgent telegram from the Governor stating that if you drew anything from the Bank at that time you would cause a general commercial panic, and other remonstrances equally pressing were addressed to you from the Bank of Bombay The result was, that you were compelled, at a moment of singular pressure, to abandon the proposed draft Your Excellency has correctly stated that "the Government of India has never undertaken "to keep balances with the Presidency Banks for the use of persons engaged in trade "and it would be highly inconvenient to admit that any responsibility attaches to the "Government in this respect, or that the Government is called upon to regulate the "amount that it will leave in the hands of any of its bankers with reference to any "other considerations than the interests of the public service But from the tone of the appeals addressed to you, it is evident that this conception of Your Excellency's duties had in fact arisen in the public mind, and was doubtless due to the relation which had existed between the State and the Presidency Banks

11 But the tendency to found extravagant expectations upon this connection is more remarkably exemplified in the claims which have been, and up to this day are still urged upon the Government by the shareholders of the former Bank of Bombay In that Bank the Government held shares, and, as a shareholder, contributed three Directors to the Board of Management The Bank was regulated by a legislative charter of incorporation, similar in kind to that which Your Excellency is preparing to grant to its successor The Government Directors were not always capable and the charter whilst it imposed some restrictions omitted others to which the other Banks had been subjected These two considerations were sufficient, when the Bank in 1866 was ruined by mismanagement, to persuade the shareholders that they had a genuine claim against the Government for compensation Further reflection has not diminished its value in their eyes for up to the present year they have not ceased to urge it That Government should in consequence of its relations with the Banks have become liable, in the eyes of an intelligent body of men, to such a demand is a circumstance not to be overlooked in considering the form which those relations in the future are to assume

12 It was inevitable from the nature of the connexion between the State and the Banks, that difficulties of this character should occur, and it is probable that under

existing arrangements they may occur not infrequently The State possesses power greater than any individual, and it is liable to pressure from which individuals are free A shareholder who can without absurdity, be asked to indemnify other shareholders for the errors into which the Directors who represent them all have fallen, a customer who contracts to deposit all his balances at the Bank, and who can be reproached as acting unreasonably if he desires to use them when money is scarce—is evidently more valuable to a Bank than ordinary shareholders and customers, and if pressure be necessary to enforce these requests it will probably be applied In the same way, an external power which can be called upon to prohibit a competitor from encroaching on the markets enjoyed by his rival, possesses a jurisdiction which is too useful not to be frequently invoked The Banks cannot in any degree be blamed for profiting by the relations into which the State has voluntarily entered They press naturally for such concessions, and the Government cannot refuse them without incurring odium, or grant them without great embarrassment

13 The time has come when Her Majesty's Government must consider how far these relations shall continue Originally they were probably devised to provide banking facilities for the commerce of the country, which it would have been otherwise unable to procure The development of trade has lessened the exigency of this reason, and I agree with Your Excellency in the doubts you express as to the real value of artificial facilities which arise from large Government balances with the Banks Capital supplied by Government, and not representing the savings of the community, is a resource on whose permanence no reliance can be placed, and which therefore tends to lead traders into dangerous commitments It gives ease for a time, and produces a prosperity which is at the mercy of an accident A political exigency suddenly withdraws the adventitious resource, and the commerce which trusted to it finds itself pledged beyond what its own resources can make good

14 In your despatch of the 30th June, Your Excellency has intimated a desire to keep a reserve of two millions in bullion in your hands, and you express the opinion that "the sense of security which you would derive from the possession of such a "reserve immediately available for any emergency, would in your judgment amply "repay the charge for interest on that amount" I recognise the serious danger to which the want of such a reserve exposes you in emergencies But the emergencies happen so rarely, that I should reluctantly consent to sacrifice interest to the extent of 80,000*l* a year permanently to meet them

15 The object you have in view will be sufficiently attained by freeing yourself from all exceptional liability to the Banks Your proposal that a minimum balance should be fixed, all deduction from which should carry interest against you, appears to me to be reasonable Without such a protection, express or implied, it would be difficult for the Banks to transact business with so large a customer You would naturally take care to fix a minimum which should not impose any burden upon the State beyond what is necessary for their fair remuneration Any such arrangement should be supplemented by a corresponding provision, that if the balances which you think fit to leave with the Bank exceed a fixed maximum, and the Bank should desire to retain them, they should bear interest in your favour But these agreements would not give to your relation with the Banks any exceptional or even unusual character

16 No further engagement on your side will be necessary The understanding that all revenue is to pass through the Banks wherever branches exist will not be renewed You will take care to make it clearly understood that the amount of your deposits is discretionary, and that if it is convenient to you at any time to retain in the Treasury the proceeds of the revenue, the Banks possess no right in respect to it that will entitle them to complain

17 In ordinary times you will probably not wish to retain money in the Treasury If any apprehension of difficulty is felt, or if the course taken by any Bank indisposes you to trust it with the custody of large deposits, it will be at your discretion to hold back the growing produce of the revenue in the Treasury, instead of paying it over to the Bank At a very brief notice you will thus be able to accumulate, in your own coffers, the two millions which you judge to be necessary for your security in times of pressure, even if a large portion of it cannot be provided by drawing upon your balances Any sum so reserved you will deal with according to the exigencies of the time It will be competent for your Financial Department either to retain it in the Treasury or to lend it for short terms under suitable conditions as to interest and security

18 The engagement which the Banks on their side should be asked to undertake will be only those to which they would probably by preference submit If you incorporate them by special legislation, you may properly insert into the Act the restrictions which do not injure their commerce but increase the confidence they enjoy They should be required to abstain from the hazardous business of foreign exchanges, and from lending on any but the most approved securities A

weekly statement, such as that which is issued by the Bank of England, together with a weekly classification of the securities on which they have advanced, should be supplied by a responsible officer, who should be bound to a true statement under penalty You will at the same time require such confidential returns as may be necessary to place Your Excellency in full possession of all the requisite information with respect to the distribution of the resources of the Banks and the character of their operations If the information furnished by these returns is sufficiently detailed, it will not be necessary to reserve a power of inspection, which might impose upon you in the public view an undue responsibility for the management of the Banks, and would, in other respects, place the Government in a false position towards them

19 These restrictions are no more than you may rightly exact as a condition of the position of advantage in which the Banks are placed by receiving Acts of Incorporation, and by their connection with your Government

20 The charter of incorporation will, as heretofore, assign to each Bank the limits within which it may lawfully establish branches This provision is earnestly valued by the smaller Banks, and is not resisted by the Bank of Bengal It is open to many and serious objections upon general grounds, but it is agreeable to a practice which has long prevailed, and to abandon it would be to make a superfluous addition to the important changes which the exigency of the case makes it necessary at this juncture to adopt For these reasons the condition may be reimposed

21 The demand of the Directors of the Bank of Bombay, that the Bank of Bengal shall be compelled to employ them as agents, stands upon a different footing The condition has not been imposed before, and it is strenuously resisted by the Bank of Bengal The acquiescence of that Bank could not be obtained except at the price of some special privilege in fiscal matters, which in effect could only be provided at the cost of the Indian tax-payers No public advantage could be shown in favour of such an arrangement, and the experience of last year furnishes a new argument against it of much cogency I should, therefore, not approve of any provisions being inserted in the Bill to disturb the existing state of things in that respect

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RESOLUTION—By the Government of India (Financial Department), No 317, dated 19th January 1876

RESOLUTION —The Governor-General in Council is about to conclude new contracts for the transaction of public business by the Presidency Banks of Bengal, Madras and Bombay, under which the Government will only maintain with the Banks such balances as may be considered convenient with reference to the requirements of the public service

2 Arrangements will simultaneously be made for the constitution of a separate reserve treasury under the custody of the Comptroller-General, in which will be concentrated all funds not required for the immediate purposes of the Administration

3 The Governor-General in Council reminds each Accountant-General, and Deputy Accountant-General in independent charge, that it is a principal part of his duty to devise all the means which his experience may suggest to reduce and economise the balances in the treasuries in account with him, without of course resorting to measures which must result in useless expense, as for instance bringing away from any treasury funds which must shortly be supplied to it again

4 Each Accountant-General, and Deputy Accountant-General in independent charge, should make it his constant care to concentrate all the spare resources of the treasuries in account with him in some convenient receiving treasury or treasuries, and should keep the Comptroller-General always informed of the amount which is thus ready at his disposal for the general service of the Empire

5 Enquiry has, heretofore, several times been made as to the lowest balances which will suffice for the conduct of the Administration in each province in each month of the year, but as circumstances change, it is not necessary to advert particularly to the results of these enquiries

6 Each Accountant-General, and Deputy Accountant-General in independent charge, is now desired to report afresh the minimum aggregate amount, apart, in the case of Madras and Bombay, from the balances in the headquarter offices of the Presidency Banks, which he considers absolutely necessary to retain in all the treasuries in account with him at the beginning of each month in the year He will compare the amounts thus reported with the actual minimum aggregate amounts held in these treasuries in each month during the last twelve years, and explain fully his reasons for estimating more than such actual aggregate minimum The Government of India does not wish to interfere with the distribution of the provincial balances in District Treasuries

7 In making his report, the Accountant-General, or Deputy Accountant-General in independent charge, will set forth any practice of the Administration, whether

Imperial or Provincial, which in his judgment makes a larger working balance necessary than would otherwise be necessary

8 The report should be submitted to the local Government, duplicate being sent to the Government of India, in the Financial Department The local Government should address any remarks that it has to make on the report to the Government of India, in the Financial Department, as soon as possible

9 The Comptroller-General will make, direct to the Government of India, in this Department, a similar report in respect to all treasuries in direct account with him, excepting the Government balance at the head-quarter office of the Presidency Bank of Bengal

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No 2088, dated 30th December 1879

From—R B Chapman, Esq, C S I, Secretary to the Govt of India DEPARTMENT OF FINANCE

To—The Comptroller General

In reply to your letter No 1775, dated the 6th December 1879, I am directed to state that the Governor-General in Council sanctions the establishment of Branch Reserve Treasuries at Madras and Bombay in connection with the Currency Offices, on the understanding that the arrangement will involve no extra expense to the State

These Branch Reserve Treasuries will be entirely at your disposal, and no payments will be made therefrom without your permission

The balances in these Branch Reserve Treasuries may be kept in currency notes of large denomination, and the amount of notes held in the Reserve Treasury and its branches may be distinguished from those in actual circulation in the manner proposed by you

The Security Bonds of the Treasurers of the Currency Offices should be revised, so as to include these Reserve Treasuries The cost of revising the bonds will be paid by Government

RESOLUTION—By the Government of India, Department of Finance and Commerce, No 949 dated 21st February 1889 (Gazette of India 23rd February 1889)

READ the undermentioned correspondence with the Bombay Chamber of Commerce regarding the policy of Government in dealing with its cash balances —

Letter from the Chamber of Commerce, dated 9th August 1888
Letter to the Chamber of Commerce, No 1972, dated 8th September 1888
Letter from the Chamber of Commerce, dated 4th October 1888
Letter to the Chamber of Commerce, No 234, dated 12th January 1889, and enclosure

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ORDER —Ordered, that this correspondence be published in the *Gazette of India* for general information

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Dated 9th August 1888

From—The Secretary to the Chamber of Commerce, Bombay

To—The Secretary to the Government of India, DEPARTMENT OF FINANCE AND COMMERCE

I am directed by the Committee of the Chamber to address you with regard to the recent heavy withdrawals of Government funds from the Bank of Bombay Without, as the Committee understand, any preliminary notice the Government withdrew from the Bank the sum of about one-and-a-half crores of rupees during the week ending 28th ultimo, thereby creating an unexpected pressure in the money market and an advance in rates of discount of about two per cent per annum My Committee believe that Government must have had good and sufficient grounds for their action in this matter and they have no doubt, when the reasons are explained, that the withdrawals were necessitated by the exigencies of the public service They are of opinion, however, that steps should be taken to avoid unexpected demands of this character, which might, under other circumstances, lead to serious results in business, and, possibly during the busy season, to financial complications These withdrawals, moreover, attract attention to a subject which has more than once been under the consideration of this Chamber in the shape of the large unemployed balances in the Government Treasuries throughout the country During the past year these balances have aggregated in round figures from 10½ to 13¾ crores of rupees, and my Committee think it worthy of the most careful consideration of the Finance Minister whether this enormous amount of money could not be made available for the purposes of trade, and thereby indirectly for the benefit of the country at large

2 In England, by the mode of finance adopted by the Government, the balances at the disposal of the Treasury are made available for trade purposes through the

Bank of England, and it seems to my Committee that a considerable portion of this country's funds might equally be utilized if arrangements were made to that end No doubt a large floating balance is required for public purposes, but if the managements of the three Presidency Banks were consulted they would probably be able to indicate some means by which the trade and commerce of the country could have the benefit, during a portion of the year at least, of the at present unemployed Treasury balances

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No 4972, dated 8th September 1888

From—The Offg Secretary to the Government of India, DEPARTMENT OF FINANCE AND COMMERCE

To—The Secretary to the Chamber of Commerce, Bombay

I am directed to acknowledge receipt of your letter of 9th August regarding the withdrawal of money in July from the Bank of Bombay to the Reserve Treasury

2 It is observed that your letter raises the general question of the extent to which the Government balances should be placed in deposit at the Presidency Banks A definite policy in this matter was laid down at the time when the Presidency Banks Act of 1876 was under discussion, and nothing has since occurred to disturb the foundations on which it rests The following extracts from documents of that date will explain it to the Chamber of Commerce

Extract paragraphs 7, 8, and 9, from a Despatch from the Government of India (in the Financial Department), to Her Majesty's Secretary of State for India — No 256, dated 30th June 1874

Paragraph 7 —We think it doubtful, moreover, whether it is any real advantage to trade that large Government balances should be kept in the hands of the Banks It appears to us that an element of uncertainty is thereby introduced into the money market not unlikely to aggravate commercial difficulties at a time of tightness

8 An amount of capital, which is large relatively to the whole capital engaged in trade at the Presidency towns is supplied by Government, but Government for reasons quite unconnected with trade, may have to withdraw these balances suddenly

In this case a sudden demand ensues for capital to replace that which is thus removed, the rate of discount rises not from any commercial reason, but from the accident of State necessities and if this should occur at a time of commercial pressure it would precipitate a crisis which otherwise might not occur If Government did not supply this capital to the trade it would be found by private individuals through banks or in some other way

9 Had the Government funds in the hands of the Banks in January last been limited to a fair working balance and had we had a reserve in our own hands, we think it may be assumed that the market rise in the rates of discount which has occurred would not have taken place, and our business would have been transacted without disturbing trade operations

Extract paragraph 13 from a Despatch from the Secretary of State for India, to the Government of India —No 225, dated 6th May 1875

Paragraph 13 —The time has come when her Majesty's Government must consider how far these relations shall continue Originally they were probably devised to provide banking facilities for the commerce of the country which it would have been otherwise unable to procure The development of trade has lessened the cogency of this reason, and I agree with Your Excellency in the doubts you express as to the real value of artificial facilities which arise from large Government balances with the Banks Capital supplied by Government, and not representing the savings of the community is a resource on whose permanence no reliance can be placed, and which therefore tends to lead traders into dangerous commitments It gives ease for a time, and produces a prosperity which is at the mercy of an accident A political exigency suddenly withdraws the adventitious resource and the commerce which trusted to it finds itself pledged beyond what its own resources can make good

Extract from the HON'BLE SIR W MUIR'S *Speech in the Legislative Council, dated the 14th December 1875*

Further, it was urged that the necessity for connection with the State no longer existed It might have been expedient, or even indispensable, in the poverty of mercantile resources at the beginning of the century, to support the credit of the Bank by Government capital and direction But this had long ceased to be the case, and there were now abundant materials, altogether apart from the State, for banking upon a secure and independent basis

Extract from the HON'BLE MR BULLEN SMITH'S *Speech in the Legislative Council, dated the 14th December 1875*

Although he (Mr Bullen Smith) conceived there might be difference of opinion as to whether or not there did exist at the present time a real necessity for the severance of that connection which had so long and with such great advantage subsisted between the Government and these Banks yet he was for his part somewhat careless to enquire as to the precise need for that severance The Banks had derived great advantage from that connection in times past, but he thought the moral support which the Government lent to the Banks besides its material support, was now no longer required He thought these institutions were now in a position to go on alone, which they were not at the time of their original establishment, and that support which was in the early days almost necessary was now no longer required

3 The policy thus laid down the Government of India cannot consider to be open to discussion The Government cannot in its own interests revert to the system

by which its use of its own balances was dependent upon the policy of the Directors of the Presidency Banks, based as it necessarily was upon commercial necessities, and not upon anticipations of State demand. Nor is it, in the opinion of the Governor-General in Council, advisable, in the interests of the commercial public, that the state of the money market should be subject to the violent fluctuations and the entire dependence upon Government operations, which would be the result of placing the entire Government balances at the disposal of the Presidency Banks.

4. The figures of your letter, I am to remark, give a somewhat erroneous impression of the amount of money which could under any circumstances be placed at the disposal of trade. A reference to paragraph 156 of the last Financial statement will shew that the 10½ crores (the real figure was under 10,30 lakhs) afforded very little margin over the amount necessary to carry on the Treasury business of the country. In fact, at the time when that balance was recorded, the balance in the reserve treasuries amounted to 83 lakhs only, and this is therefore the only addition which, on the policy proposed by the Chamber, could at that time have been made to the amounts, stated in the margin which under existing arrangements were available for the purposes of trade.

Head Offices and Branches

	Rs
Bank of Bengal	1,72,51,000
" Bombay	71,34,000
" Madras	39,80,000
	2,83,65,000

5. The example of the Home Government, which is quoted in your letter, is for more than one reason entirely inapplicable to India. In the first place, the Government balances in England are not liable to the great fluctuations which arise in this country from the fact that the revenue is most unequally distributed over the year; and, in the second place, the Government balances in England are an item that disappears in the general account of available resources, while in India they amount to considerably more than half of the available cash of the Presidency Banks. When the Government in England obtains assistance from the money market the transaction is a mere ripple on the surface of the commercial world; when the Government of India makes a similar appeal, the transaction is one which, as your letter shews, dominates the whole condition of the money market, notwithstanding the fact that six weeks' notice of the demand has been given.

6. With these observations on the question of general policy, I am now to refer to the transactions of last July. The arrangements of Government at the time of raising a loan are devised for the express purpose of enabling the demand to fall easily upon the money market. Ample notice is given, and the instalments are spread over two or three months. The interests of Government are the same as the interests of those who finance its loans, and the Government has always been careful that no pressure on its part shall affect the facility with which the money is raised. The Chamber are doubtless aware that there is a stipulated maximum fixed for the Government balances which in the case of the Bank of Bombay is 50 lakhs, but the Government balances at the Banks are necessarily swollen by the loan operations, and the practice of Government has been to let the Banks retain as much in excess of the stipulated maximum as they desired provided they paid interest upon it. The fairness of this condition is obvious; the money is wanted for advances on the new paper, which money the allottees in their turn pay into the Government account. The Banks cannot reasonably claim—neither have they on previous occasions claimed—that the Government should, while it is itself paying interests to the allottees, lend the Banks the same money without interest in order that they may use it to make advances at interest to the allottees; and it is obvious that so long as the Government offers to advance its money at the Bank's minimum rate, it cannot be charged with any action tending to raise that minimum rate.

7. The Chamber of Commerce seem to have been wrongly informed as to the facts of the present case, for the Government on this, as on former occasions, have acted throughout in concert with the Presidency Bank. From July 6th to 10th the Government balances were increased by payments on account of the loans from 77 to 229 lakhs. Next day—that is, on 11th July—the Secretary of the Bank wrote to the Accountant-General with the object of retaining this balance for a time, as, according to ordinary practice, he expected to be called upon to reduce it. The Accountant-General replied by stating that he proposed to make considerable withdrawals, but that, if the Bank desired to retain an excess over 70 lakhs, it could do so by paying interest on the amount according to previous practice. Finally, at the desire of the Bank, which did not wish to hold money at interest, another arrangement was substituted, which provided for the withdrawal of the money during the three weeks from 14th July to 4th August. The Accountant-General accepted the proposal which the Bank put forward in this respect, making in it one modification only—namely, that he took on 14th July 140 lakhs instead of one crore, but as he at the same time placed 20 lakhs at the Bank's call at the Reserve Treasury, he practically withdrew only 20 lakhs more than the Bank offered.

8 It will, no doubt, be admitted that these transactions are somewhat inaccurately described in the Chamber's letter, which says that—

Without any preliminary notice, the Government withdrew from the Bank the sum of about $1\frac{1}{2}$ crores of rupees during the week ending 28th ultimo, thereby creating an unexpected pressure, and an advance in the rate of discount of about 2 per cent

9 The circumstances were certainly very unusual under which over two crores of the loan was paid up in Bombay by the date of the first instalment, and it is not surprising that a temporary difficulty should have arisen from them For these circumstances the Government is in no way responsible, but the task of getting out of the difficult position thus created fell upon the Accountant-General and the Bank of Bombay With the action of the latter the Government is not at present concerned, but the mere facts that the Bank's minimum rate never stood in danger of being raised, that the Government balance from the 7th till the end of the month never went below 75 lakhs, though the fixed maximum is 50 only, and that the Bank did not find it necessary to borrow the money offered it by the Accountant-General, are evidence of the carefulness with which the Accountant-General resumed for the Government the control over its own balances The fact that the Chamber assign to the withdrawal of the $1\frac{1}{2}$ crores, a date which is a fortnight later than that of its actual occurrence would seem to show that it did not make itself manifest by any sudden stringency in the money market

10 The reference in your letter to an advance of about 2 per cent in the rate of discount is not understood The Bank's minimum rate has been steady at 4 per cent from the commencement of July till now If the Chamber's letter implies that large advances were being made at 2 per cent, while the Directors of the Bank of Bombay maintained the official rate at 4 per cent, then there is ample reason to think that the withdrawal of the Government balances was demanded just as much in the interest of the steadiness of the market as in the interest of Government, and the Government would have been justly chargeable with fostering an incipient speculation if it had departed from its prescribed methods, and left in the Bank's coffers the large sums of money, which had been collected during the month of preparation, by those who intended to subscribe to its loan The incident, in short, is an example of the danger pointed out in the above-quoted Despatch of the Secretary of State, and furnishes an additional proof of the wisdom of the policy which has been described in the opening paragraphs of this letter

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Dated 4th October 1888

From—The Secretary to the Chamber of Commerce, Bombay

To—The Secretary to the Government of India, DEPARTMENT OF FINANCE AND COMMERCE

I am directed by the Committee of the Chamber to acknowledge the receipt of your letter No 4972 of 8th ultimo, and in so doing to express their thanks for the detailed explanations therein given of the circumstances attending the withdrawals of the Government balances from the Bank of Bombay in July last

2 Being dependent for their information regarding the fluctuations in the treasury balances on the weekly published statements of the Bank of Bombay, the Committee perceive that they were in error in putting the withdrawals at 150 lakhs instead of 140 lakhs, and, furthermore, that the action of the Accountant-General in making these withdrawals had not been adopted, as the outside mercantile community generally at the time believed, without some preliminary intimation to the responsible officials of the Bank My Committee respectfully submit, however, that any misapprehension they may have inadvertently expressed on these points does not materially affect the main issue respecting which they took the liberty of addressing Government The broad fact remains that by the withdrawals in question, and notwithstanding the precautions which Government were apparently desirous of exercising, the money market was suddenly and unexpectedly transformed from a position of exceptional quietude and ease to one of extreme stringency, and the market rate of discount was practically advanced in one day, without the preliminary indications which generally accompany such movements, from about 2 to 4 per cent per annum Happily, as I have already had the honour to state, this unforeseen advance in the value of money was unattended as it might easily under other circumstances have been by any general disaster, but serious loss was occasioned to banking institutions and private individuals for which it is now manifest there was no occasion, and it will be in the interests of Government and tend to inspire confidence in investors if provision be made to avoid the recurrence of a similar state of affairs in connection with future loans

3 The fact that the Bank of Bombay minimum rate remained unchanged throughout at 4 per cent is relied upon as showing that no such stringency as my Committee alleged really existed, but this view is based on the misconception—plainly stated in the tenth paragraph of your letter—that no money market exists apart from

the Bank, and to this misconception, very possibly, the conditions which led to the exceptional pressure may be entirely attributable.

4. Had Government been aware, as was the case, that money in the open market had only been worth from one-and-a-half to two per cent. per annum for a month previous to the issue of the loan, they would have perceived that the privilege of being allowed to pay up instalments to the loan in advance, and thereby secure 4 per cent. interest, was bound to attract unusually rapid payment, and, in view of this contingency would doubtless have instructed the Accountant-General to extend his withdrawals over a longer period.

5. The circumstances were no doubt unusual, but with a due appreciation of the true financial situation the ultimate results were certainly not improbable, and the Committee of the Chamber do not see that in making the concession which the Secretary of the Bank of Bombay at the time solicited, the Accountant-General would have been doing more than the occasion demanded. It is unquestionably to the interest of Government that subscriptions to their loans should be attended by as little risk as possible, and if by spreading the withdrawals of the unexpectedly large sum at his disposal over three weeks or a month, the Accountant-General had it in his power to obviate any adverse contingency, it would have been sound policy to have conceded the arrangement. Government not having contemplated so rapid a payment of the loan could not have been in emergent want of the money, and any charge which the Bank might have been prepared to pay would have been so much profit, as it would not otherwise have been employed at interest. The transaction no doubt would, as indicated in your letter, have trenched upon the strict letter of the prescribed relations between Government and the Presidency Bank, but the position was exceptional and might fairly, therefore, claim exceptional treatment. More my Committee would not have contended for in connection with the transaction now past, and they merely ask that similar conditions may meet with adequate consideration in the future.

6. As to the general question of the advisability or otherwise of utilising some portion of the unemployed treasury balances for trade purposes, the Committee regret that for reasons adduced the Government of India do not consider their present policy as open to discussion. I am directed to say, however, that they trust they may not be considered wanting in due respect for the decision of Her Majesty's Secretary of State for India if they point out that the financial conditions prevailing in 1874 when the basis of the Government relations with the Presidency Banks was laid down, are widely different from those at present existing, and that the opinions expressed about the same period by the Honourable Sir W. Muir and the Honourable Mr. Bullen Smith, while sound and entitled to all consideration at the time, have now lost much of their force. Trade and industrial enterprises have undergone enormous expansion in the interval, necessitating and attracting banking facilities in proportion, so that while at certain seasons of the year there is an active demand for capital which would enable Government to obtain a remunerative return on their unemployed funds, their placing same at the disposal of a market so greatly developed in resources and extent would not be attended by the same risks as were rightly held to be involved thirteen or fourteen years ago. Nor in so doing need the existing arrangements with the Presidency Banks be materially disturbed. The Government treasury balances, the Committee understand, are as a rule at their maximum in March, April and May, which are precisely the three months in which the demands of our export trade call for the largest monetary facilities, and in consequence the highest rates of interest prevail. It seems to the Committee of the Chamber, therefore, that a considerable revenue might be earned at that period of the year by Government lending out such sums as they safely had available. Tenders might be invited from the Presidency Banks and from Exchange Banks on the security of Government paper for loans at thirty, sixty or ninety days, in such amounts as might be convenient in the different financial circles. The effect of making such advances would be all in favour of a steadier money market throughout the year, as on the one hand the result would be to keep the amount of the Government balances with the Presidency Banks—now an element of considerable uncertainty—at a more uniform level, while on the other, by limiting the rush of money into the country to meet the requirements of the export season, the after collapse which usually ensues when these funds are set at liberty would be avoided.

7. Matters of detail would no doubt require to be carefully considered and worked out, but a wide-spread feeling prevails in commercial circles that some such system as that indicated would be of advantage to trade, and at the same time safe and profitable to Government, and the Committee of the Chamber respectfully suggest that the subject is of sufficient importance to warrant grave consideration.

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No 234, dated 12th January 1889

From—The Offg Secretary to the Government of India, DEPARTMENT OF FINANCE AND COMMERCE

To—The Secretary, Bombay Chamber of Commerce

I am directed to acknowledge the receipt of your letter of the 4th October 1888 stating the views of the Chamber on the withdrawal of a portion of the Government balances last July from the Bank of Bombay, and on the policy of Government in dealing with its cash balances in the public treasury

2 As regards the withdrawals from the Bank, the Chamber will see from the letter addressed this day to the Bank (copy enclosed) that the Government of India approves the proceedings of the Accountant-General on that occasion, and does not consider it desirable to prolong the discussion of the circumstances which gave rise to the present correspondence

3 As regards the views expressed by the Chamber on the policy pursued by the Government in dealing with the Treasury balances and the proposal that the balances should be made available for purposes of trade, I am to invite the attention of the Chamber to the paper by Mr J Westland, of which a copy is annexed to this letter, in which he sets forth at length the sums actually maintained in the treasuries the nature and extent of the claims upon them, and the method in which the transactions of the treasury are conducted The Governor-General in Council hopes that the facts stated in this paper will convince the Chamber that the Government does not maintain balances in excess of actual requirements, and that the method of dealing with those balances is sound His Excellency in Council is satisfied that no substantial change in either of these respects is called for and that no such change could be adopted consistently with the pursuit of a prudent policy in meeting the requirements of the State

4 The Chamber will observe from the letter addressed to the Bank of Bombay that the Government of India does not see its way to comply with the desire expressed both by the Bank and the Chamber that the Treasury balances should be used, in a larger degree than at present, to facilitate trade The Chamber's remarks contained in paragraphs 6 and 7 of the letter under reply have been carefully considered, but the Governor-General in Council finds himself unable to depart from the policy hitherto adopted His Excellency in Council cannot agree with the Chamber that the arguments on which that policy was based in 1875 have lost their force at the present time Trade has certainly expanded, but with its expansion banking facilities have proportionately increased, and it is less in need of State support now than in 1875 The volume of trade and the demand for money are steadier, and less liable to violent fluctuations throughout the year, than they were in past periods, and it is not necessary, therefore, to adopt special measures to prevent fluctuations which are rarer than was the case when the policy of Government was formulated

5 His Excellency in Council is, moreover, convinced that nothing but evil could result from the adoption of the suggestion that the Government should enter into competition, in making loans to the mercantile community, with the Presidency Bank Trade should be left to depend upon its own financial resources If advances were systematically made by Government during the busy season there would be a tendency to reduction of the working balances of the country to an unsafe minimum and the consequent risk of panic, to guard against which is an important object of the Reserve Treasuries If advances were made at a lower rate than the published rate it would be difficult to confine the privilege of obtaining money at less than its value to the Presidency Banks, and these Banks would also be increasingly anxious to profit by such loans, and tempted to enter upon speculative operations with the resources placed at their disposal by the State, allowing their own reserves to fall below the limit of safety The Government of India is not prepared to adopt a course which would tend to produce such results, and the deliberate conclusion of the Government, after giving the proposals of the Chamber the fullest consideration, is that any assistance in relief of the money market which may be afforded by means of the Treasury Reserve can only be made through the Bank, and at its published rate of discount, in relief of temporary stringency, and that no departure from the policy hitherto pursued can be allowed

6 I am in conclusion to invite the attention of the Chamber to paragraph 22 of Mr Westland's paper, and to say that the impression which appears to exist in some quarters that Government manipulates the Presidency Bank balances with the view of forcing a demand for Council Bills is entirely without foundation Any such manipulation would, in the opinion of the Government of India, be unjustifiable, and would eventually, fail of its intended effect

Note on the management of the Government Balances

In passing through Bombay I had a conversation with Mr Forbes Adam on the subject of the recent correspondence about Government Cash Balances, between the Bombay Bank and the Bombay Chamber of Commerce (of both of which Institutions he is President) on the one side, and the Government of India upon the other, and adopting the suggestion which he made to me, I propose to put on record this general sketch of the manner in which the Government Balances are managed

2 The leading facts upon which the regulation of these balances depends are these —

(1) That the months of August, September, October, and November produce far less than their proper share of revenue, and that the current expenditure during them has to be met to a considerable extent by a depletion of balances,

(2) That the minimum balance with which the Government Treasury business can be worked, that is to say, with which we can undertake to have money ready, at every treasury, to meet the demands upon us, is at least eight crores of rupees

3 The main factor in the determination of this figure of eight crores is (as it must always in such cases be) actual experience We find, as a matter of fact, that as our balances approach a minimum of eight crores, we have to multiply very greatly the amount and rapidity of the cash remittances by which we transfer money from the treasuries at which it is received to the treasuries at which it is wanted to meet actual payments There is a point at which it becomes more costly to make such remittances than to increase the available cash For example, I do not say it would be actually impossible to meet the demands on our treasuries with a minimum balance of seven crores, but it is certainly the case that any attempt to work the treasuries with that balance would be accompanied with an outlay in cost of remittances that would not fall far short of the four lakhs of interest which we would have to pay if we raised another crore in order to raise from seven to eight crores the amount at our disposal And, besides this, there would be very great risk of our having to declare ourselves—at some of our treasuries—unable, pending the arrival of remittances, to meet our current obligations What this would mean, apart from the discredit of it, may for a moment be glanced at We might be unable to pay the soldiers and create serious discontent in the army, we might be unable to meet the current expenditure of working or of constructing railways, we might be obliged to stop important Public Works—an extremely costly proceeding even if they are immediately resumed

4 This figure of eight crores might, perhaps, at first sight, seem large, but I shall state some considerations bearing upon it which will shew it to be not unreasonable The Bank of Bengal were good enough to furnish me some time ago with an estimate of the daily amount of actual cash paid in and cash paid out at their head office in Calcutta It amounted to about 12 lakhs each way, and to keep their position safe they ordinarily keep over a crore of rupees in available cash, that is, an amount exceeding eight days transactions Now the daily cash receipts and disbursements at the Government Treasuries amount to about 50 lakhs each, so that if we have a balance of eight crores we have only sixteen days' payments and receipts in hand If the Bank finds it necessary to keep eight days in hand, in the case where all the receipts and payments occur in a single office, it may fairly be said that sixteen days is a somewhat narrow limit for a case in which the transactions are spread over 200 treasuries and 800 sub-treasuries, and in which the circumstances are such that the receipts often come in at treasuries very far removed from those at which the expenditure has to be met

5 The manner in which the balances are distributed is arranged with the object of working the treasuries with the smallest possible amount They are distributed into nine groups, coterminous with the nine Provinces of account, and each group is under the regulation of its own Accountant-General The Accountant-General, besides receiving details of his actual balances twice a month, obtains, at the beginning of each month from each Treasury, an estimate of its transactions during the current month and the two succeeding months, and thus sees in prospect what treasuries have more funds than they require and which of them require to be supplied with funds in order to meet the demands upon them He orders remittances accordingly, and such funds as are not required by him upon the whole account, he gathers towards a few Central Treasuries chosen with reference to their accessibility, where the surplus funds lie at the disposal of the Comptroller-General These operations are carried out under the immediate supervision of the Comptroller-General who exercises his supervision in this way He receives from each Accountant-General in October, an estimate showing the minimum balance he requires for the

service of his province on the first of each month, this minimum is by this time pretty well ascertained by experience Guiding himself by this and by the monthly estimates above alluded to, which are consolidated and sent to him, he sees what provinces, from time to time, have surplus funds available, and in what provinces these surplus funds are required for expenditure Such provinces as the Punjab and Burma are continually demanding funds to meet their heavy military expenditure, and the Comptroller-General has also to lay down funds to meet the demands at the presidency towns on account of Council Bills, Interest, Railway payments, &c The Comptroller-General is thus directly interested in keeping the Provincial Balances at as low a point as possible He may not actually, at each moment, concentrate his available funds at Calcutta and Bombay He may, for example, leave them at the Central Treasuries of the Accountants-General, because he may see that if he took them away he would shortly have to send them back, and he may not find, in any commercial demand, the means of moving them without actual specie remittance But whether actually moved or not, they are part of his available resources, and are at places whence they can be sent at very short notice to any spot where they are required

6 This, therefore, is the general system of the management of the balances, devised, it will be seen, for the express purpose of enabling the Comptroller-General to carry his available resources, as far as possible, towards meeting the demands on the treasuries It remains to add, in further explanation of the carefulness of management required at the hands of the Comptroller-General by the limitation of the funds at his disposal, that each month he gathers together the estimates of the various Accountants-General (to which allusion has already been made), and after careful collation of them, prepares a review which is laid before the Government each month, and which sets forth in detail the various demands which the Comptroller-General has, to meet during the current and two succeeding months, and forecasts the plans, so far as relates to movements of funds, by which he proposes to meet them Movement of funds is in itself, I may remark, a business of some complication, because it includes not only movements of actual specie but also consideration of mercantile and banking business, a class of remittance which of course we substitute, as far as possible, for specie remittance, whenever it is available

7 I have thought it advisable to mention all this detail of management in order to shew that it is with some confidence that we set down as our practicable minimum the balance of eight crores at which we find by experience that we begin to be doubtful as to the possibility of moving our available funds to the points where they are required to meet expenditure I may allude, before I go further, to two devices by which we call in the aid of our currency reserves in order to make this eight crores go further than of itself it would Our normal currency reserve of coin we may put down at six crores of rupees This amount is, of course, by law, sacred to the purpose of supporting the currency circulation, we cannot apply it to any treasury purpose At the same time, it is vastly more than in ordinary times is necessary for the purpose of actual encashment of notes It is scattered over the various places from which we are by law authorized to issue notes One perfectly legitimate operation of which we take great advantage is that we depend upon this currency reserve for facilities of rapid remittance For example, we can make a remittance of, say, 20 lakhs, at a moment's notice, from Calcutta to Lahore, by simply paying in 20 lakhs to Currency Office at Calcutta, and obtaining at the Currency Office an order upon the Lahore Currency for 20 lakhs to be paid to treasury there I think it is not too much to estimate this facility of remittance at a crore of rupees, that is to say, a balance of eight crores, with this facility of remittance through currency, goes quite as far towards meeting our liabilities, as a balance of nine crores would without this facility I may further mention in this connection the utilization of the currency reserve at Rangoon for keeping, from one busy commercial season to another, the large supplies of silver which are required for the rice trade, and which used to a large extent to be sent down by the Banks by specie remittance from Calcutta before each rice season, and brought back after it The other way in which the currency balance helps us is a comparatively unimportant one, but still it does give us some small assistance One of the liabilities we undertake with our treasury balances—in addition to that of meeting our payments—is that of supplying both ourselves and the public generally with small coin and as we must always have a considerable stock of small coin in hand, the reserves of this stock are practically an inefficient balance That is, part of our eight crores consists of this class of coin, and cannot be considered available for the general purposes of a cash balance So far as copper coin is concerned this is a weight we must bear, but it is not an appreciable one So far, however, as small silver is concerned, we can transfer the burden to the currency reserve Silver bullion is a form in which it is quite lawful to hold currency reserve, and if we possess a reserve stock of ten lakhs, say, of small silver, we can keep it as part of our currency reserve, and thus have the full use

of our supposed cash balance of eight crores instead of having ten lakhs of it locked up in the unavailable form of small silver coin

8 I think, therefore, I may legitimately contend that the fact that we require a minimum of eight crores for the purpose of conducting the treasury business arises from the actual necessities of the business, and not from any want of efficiency or attention in the conducting of it And if the demands be measured, even in the roughest way, by the number of places where funds have to be provided, eight crores will seem a small sum to cover them all For the three presidency towns alone the Government balances at the Banks require at least 125 to 150 lakhs, and it must be remembered that the minimum period of December is that at which trade is reviving, and the Secretary of State beginning to increase his drawings to 50 lakhs a week Rangoon, Allahabad, and Lahore are all headquarters of provinces, where the Accountant-General must not be left without a fair reserve wherewith to support the 40 treasuries he has to supply, there are distant treasuries like Quetta and Aden, where expenditure is heavy, and which must be made independent of external aid There are first class military stations like Peshawar, Lahore, Multan, Rawalpindi, Umballa, and Delhi (not to go beyond the limits of a single province), where the expenditure of the first few days of the month is measured by lakhs of rupees There is Upper Burma, a country where the heavy expenditure of a military occupation has to be met, and where the means of communication are as yet so imperfect as to necessitate each treasury being made almost independent of its neighbours Small amounts at each treasury, which come to a considerable amount on the whole, are required to give to the public, as far as possible, facilities for obtaining and exchanging small coin and currency notes, and it may be mentioned that for the convenience of the public, we receive foreign-circle notes freely in payment of revenue, which necessarily to some extent locks up for the time a part of our funds The working out of the detail of the distribution will thus be found to mount up very rapidly towards the allotted total

9 Above all, there is the consideration that the treasury must, outside the Presidency towns, absolutely depend upon its own resources, and that there is no reserve of any kind upon which it may fall back, if it is itself deplenished

10 It must be understood that this eight crores, of which I have been writing is a practically irreducible minimum, it is not the actual balance with which we can, as a matter of system, carry on the treasury work On the contrary, it represents a state of strain which can be maintained for a time, but which implies a certain expenditure in remittance, and a certain incurring of risk It is a condition of things which we can afford to stand for a month or so, when we know that mere efflux of time will bring a speedy recovery, but which would be intolerable, and probably somewhat expensive, if we were obliged to accept it from year's end to year's end as the normal condition of the management of business To represent the permanently possible condition, we must first of all give ourselves a margin of 20 per cent beyond the eight crores, and put down about 960 lakhs of rupees as ordinarily absorbed in the actual meeting of demands upon the treasuries Though it is possible occasionally to work down to 800 lakhs, it is unwise to attempt to do so, if we have 960 available, that is, out of our total treasury balance at any time 960 lakhs must necessarily be scattered over the various treasuries where payments have to be made But even this is not enough during the months when the revenue is in active collection, for the revenue then collected necessarily largely increases the balances of the treasuries until such time as it can be carried away to the places—often at a considerable distance—where it is required for payments A notable instance of this occurs at the end of March in Bengal Bengal ordinarily can be easily worked with a balance of 120 lakhs at the outside (of which 10 to 15 are in the Bank of Bengal) But the Accountant-General has to lay down very heavy balances at the end of the month in the Behar treasuries in order to meet the large opium payments which then begin He completes this operation, say about 20th or 25th of March, and as soon as he has done so, he receives at the treasuries in Lower Bengal the March instalments of land revenue About a crore of rupees are paid in on 26th, 27th, and 28th of March The consequence of these two operations—which it is not possible to fit into each other, as the money is required to be laid down in the western treasuries before it can be sent from the eastern—is that Bengal always ends the month of March with a balance considerably in excess of 200 lakhs

11 On the whole, therefore, the really practicable working balance, except at the minimum period of the year when little revenue is coming in, may be put down at at least 1,000 lakhs, and it is only the excess over that amount that can be regarded as held by the Comptroller-General in reserve, mostly in the reserve treasuries, but partly also in those "central treasuries" where the Accountants-General may, as explained in paragraph 5 above, place their surplus funds to await the orders of the

Comptroller-General The following figures show, for the past 24 months, the whole Treasury balance, divided into—

(1) the amount held in Reserve Treasuries,
(2) the amount held in all other Treasuries

Last Day of	1886-87			1887-88		
	Reserve	Other	Total	Reserve	Other	Total
October - - -	1,31	9,41	10,72	1,51	8,87	10,38
November	89	9,42	10,31	1,71	8,85	10,56
December -	58	10,09	10,67	83	9,47	10,30
January	1,03	10,96	11,99	1,59	11,63	13,22
February -	77	11,24	12,01	1,43	11,79	13,22
March -	51	12,68*	13,19	72	13,16*	13,88
April - - -	69	10,38	11,07	1,42	10,70	12,12
May -	95	9,75	10,70	1,00	10,81	11,81
June -	1,25	10,78	12,03	1,05	12,45	13,50
July -	1,07	10,26	11,33	3,65	11,76	15,41
August - - -	2,09	9,74	11,83	2,80	10 48	13,28
September -	1,88	8,90	10,78	2,30	10,48	12,78

* The explanation of the especially high figure of 31st March lies in the circumstances of Bengal just mentioned

12 I stop for a moment to note upon the apparent irregularity of these figures They would seem at first sight to be subject to no particular law, but this circumstance arises out of two sets of transactions *only*, namely, the rate at which the Bills of the Secretary of State are paid, and the rate at which loan receipts are paid in The following are, in lakhs, the transactions of each of the above 24 months, divided under three heads —

1886 and 1887	Council Bills	Loans	Other transactions	Council Bills	Loans	Other transactions
October - - -	– 38	+ 33	– 86	– 98	+ 43	+ 15
November - -	– 1,14	+ 22	+ 51	– 82	+ 7	+ 93
December - -	– 1,42	– 2	+ 1,80	– 1,88	—	+ 1,62
January - -	– 2,57	—	+ 3,89	1,95	—	+ 4,87
February	– 1,77	—	+ 1,79	– 2,05	—	+ 2,05
March -	– 2,27	—	+ 3,46	– 2,26	—	+ 2,93
April -	– 2,72	+ 32	+ 28	– 2,09	—	+ 32
May	– 1,95	+ 51	+ 1,07	– 2,28	—	+ 1,98
June - -	– 1,58	+ 52	+ 2,38	– 1,33	—	+ 3,02
July -	– 1,50	+ 67	+ 13	– 1,56	+ 2,88	+ 59
August - -	– 1,66	+ 2,49	– 33	– 1,33	+ 12	– 92
September -	– 1,11	+ 19	– 43	– 1,03	—	+ 47

13 Now it will be seen that although there is considerable irregularity under the first two heads (Secretary of State's Bills and Loans), there is no very great diversity (considering the vastness of our transactions) under the last or residuary head In other words, if our balances were not affected by variety in the amount paid out on account of Secretary of State's Bills, and of the amounts paid in on account of loans, they would show, year after year, very much the same details of variation The minimum period is, as I have already stated, the month of December The large Revenue receipts of the next few months cause the balance to increase considerably up till June, notwithstanding that this is the heavy period of the Secretary of State's drawings After remaining stationary for a month or two, the balance runs down very rapidly in September, October, and November, in which months the amount of revenue received is very small It is during, or about, these latter months that we usually arrange to receive the money we raise by debt, partly because they are the months in which the money market finds it easiest to supply our demand, and partly because it is the time when the money most conveniently reaches us with reference

to Treasury requirements, that is, it comes in, not in supplement of a large balance already held, but so as to prevent our balances falling too low for our necessities

14 The amount of the loan is carefully calculated beforehand, upon a forecast of the monthly balances, so as to give in the amount necessary to tide over December with our minimum of eight crores or a little more If we do not, as a matter of fact, get down to that figure, or nearly so, it is usually because the Secretary of State has not succeeded in placing his bills to the extent he hoped The remittance of 15 millions sterling to England is a very large and important operation, in which it is necessary to allow a *very* considerable amount of latitude, and it would be grievous mismanagement if, when the Secretary of State was finding a market for his Bills, we were obliged to tell him that our balances were so weak that he must reduce his drawings We must, therefore, be careful not to underestimate his demands, or in other words, we not unfrequently find that his drawings are a crore or two behind our estimates, and that in consequence we are, as a matter of fact, left in December with a balance of a crore or two in excess of the minimum down to which we can work

15 Reverting now to the figures given in paragraph 11 above, I think it will be admitted that the Bombay Chamber of Commerce state the problem wrongly when they describe the Government balances in their letter of 9th August 1888 as 10½ to 13¼ crores of "large unemployed balances," and enquire whether "this enormous amount of money could not be made available for the purposes of trade" I have shown that of this amount about 10 crores cannot in any sense be described as lying idle, but is actually required to support the treasury business of the country I shall presently examine the question whether the amount can be ever described as "unavailable for the purposes of trade," but as the Chamber's reference was mainly to trade at the Presidency towns, it is sufficient to point out at present that the only amount that can be made available for such purposes is the amount lying in the reserve treasuries, which, except immediately after the receipt of loans, rarely exceeds 200 lakhs, and is ordinarily considerably less than that figure The money in the "Central Treasuries" (paragraph 5) cannot be made available at Presidency Towns, as, if it is kept in the Central Treasuries, it is so kept on the ground that it is likely to be required up-country, and it would never be worth while to send it on a journey of some hundreds of miles only to be sent back again after a short time Besides, as will presently be mentioned, many of these Central Treasuries are at branches of Presidency Banks, so that the Banks already have the employment of the money so long as it is not required for Treasury purposes

16 The question raised by the Chamber is, therefore, narrowed to the question whether Government should lend out, for commercial purposes, the balances held in the Reserve Treasuries at the Presidency Towns And if I rightly understand their letter of 4th October, this is the form to which their proposal is actually reduced, namely, that during the months of March, April, and May, the balances which are so held might be lent out for commercial use I do not consider it necessary or desirable that I should in this place enter upon any discussion of this question, it will receive the full consideration due to a proposal emanating from such a body as the Bombay Chamber of Commerce The object of my paper is merely to remove the misconceptions which seem to me to have hitherto surrounded the subject, to set forth in a clear light what is possible and what is not possible, and to define more accurately the issue which arises out of the present correspondence

17 I come back now to the question of our 10 crores of actual working balance Are the Chamber of Commerce right in describing this balance as "unemployed," and as "not available for the purposes of trade" I am afraid I must directly traverse this statement

18 In the first place, a very considerable share of the 10 crores is placed directly at the disposal of trade through the system of Presidency Banks The actual statistics show that during the last two years the amount of Public Deposits in the Presidency Banks and their branches has fluctuated between 262 lakhs and 390 lakhs, and this is almost entirely supplied out of our 10 crores of Cash Balances At the three Head Offices the Government Balances have not, since December 1885, been below 130 lakhs, and they have often been much higher than 150

19 Of the District Treasuries, the largest and most important are at the places where there are Bank Agencies, and at these places the whole of the Government Balances are made available for trade through the agency of the Banks Nor is there any limit to the amount of balances which may be thus placed except that which is imposed by the action of the Banks themselves That is, whenever any of the Presidency Banks finds it worth its while to establish an agency at any place where there is a District Treasury, the balance at the District Treasury would almost, as a matter of course, be made over to its custody In other words, wherever there is trade sufficient to avail itself, under the Presidency Banks system, of the local Government Balance, there the local Government Balance is placed at the disposal of the trade

20 Another method by which the Government Balances are made available for purposes of trade is, that they are by the officers of the Government made available

for purposes of remittance Indeed, it is not too much to say that the whole of the system of inland trade remittance is supported by and carried on through the Government Balances Of the extent to which this is done I believe few persons have any cognisance, and I therefore attach a report of my own written in 1883, in which the subject is generally reviewed As I am writing mainly with reference to the representations of the Bombay Chamber of Commerce, I may take the opportunity of adding, by way of completing the subject, that a very important series of remittances—those connected with the financing of the Bombay cotton trade—is carried on through the Berar Treasuries, but is not noted in the enclosed paper, as these Treasuries lie outside the system of Government Treasuries proper

21 I trust that the explanations I have given will cause the Chamber of Commerce to change its opinion about the 10 or 13 crores of money which they have hitherto considered to be lying idle, so far as the needs of trade are concerned We may fairly claim that we do—perhaps not all we might do, but still—a very great deal towards making our balances available for the purposes of commerce Their first purpose, it must be remembered, is that of supporting the actual treasury transactions of the Government, and we do our best consistently with the primary purpose, towards making them facilitate the commercial transactions of the country

22 Before I conclude this paper I would make a few remarks upon an accusation which I have over and over again seen brought against us, of manipulating our Presidency Bank Balances with the view of forcing a demand for Council Bills Having had the direct management of these matters for five years, I can say that, though the statement was repeatedly made during that time, it was in no instance true In the first place, I do not believe that any such manipulation would, in the long run, succeed We have it, indeed, in our power to tighten money by ordering large withdrawals to reserve, but as the money will have to go back sooner or later, we shall lose as much advantage when we return it, as we have gained by withdrawing it In the second place, I have a great belief in the mischievousness of all artificial manipulations of the balances available for trade, that is, any variations which are not the direct outcome of trade action I believe to be directly dangerous* Why it should be imagined that a state of things which is dangerous or inconvenient to trade is profitable to Government I fail to perceive My endeavour has therefore always been to keep the Government Balances at the Bank at as nearly one level as possible The action of Government is usually confined to feeding the Bank with money to meet the local demands on the Government account, and my action in the matter in question has usually been directed towards feeding it so as on the whole to preserve, at as steady a level as possible, the balance at the credit of the Government account

* On this ground I disagree in the Bank of Bombay's proposal that we should receive loan money only on the days fixed for the instalments The duty of Government is to make the operation as elastic as possible, and to leave to ordinary trade channels the adjustment of the Government demand to the conditions of the market I feel sure that the Bank's suggestion would not be acceptable to those who finance our loans Nor is it in conformity with the usual practice in raising capital in London

23 The real explanation of the features which give rise to the accusation is almost amusing in the proof it affords of the way in which evidence may be twisted from its real bearing Just before the Bank's statement has been published we have received, say, forty lakhs of opium revenue, for the financing of the opium trade in Calcutta, accumulated as it is towards one short part of each month, causes nearly every month a violent fluctuation of this kind in the Government Balance, and any attempt to level down the fluctuation thus caused would give a violent wrench to the market under the appearance of maintaining a uniform level There is, however, an active demand for Bills, perhaps forty lakhs come out in one mail, and are paid by the Bank of Bengal, the obvious result is that unless other transactions compensate for this withdrawal the "Public Deposits" are reduced by forty lakhs The next weekly account of the Bank appears, and it is immediately asserted that "Government has withdrawn forty lakhs," and Government is severely condemned for withdrawing so large a sum from a market hungry for money The truth, however, it will be seen, is exactly the opposite The forty lakhs which came in one way have now passed out in another way from the balance of the Government to feed the demands of the market, and the reduction in the Government Balance is a sign that the money market is being relieved by the regular course of transactions, and not that it is being tightened I have once or twice given this simple explanation in the public press, but without much avail, for I find that Government is still occasionally charged with "withdrawing its balances," when all it has done is that it has been paying out money in satisfaction of the bills drawn by the Secretary of State in favour of merchants and bankers in India

J WESTLAND

20th November 1888

E J SINKINSON,
Offg Secretary to the Government of India

Extract from Financial Statement of the Government of India, 1889–90

105 The present year has seen a great scarcity of money in the Indian markets, which has kept the Bank rate at 12 per cent for a considerable period, and as usually happens in such cases in this country, the question has been raised whether Government might not in some way come to the assistance of trade

The scarcity is no doubt owing in part to an early cotton season in Bombay coinciding with a demand for rice in Burma, and other customary requirements at this season, but the root of the difficulty appears to be the doubtful position of silver But for this it seems inexplicable that for week after week there should be a difference of 9 per cent in the rate of money in London and India, and yet that in some weeks the whole amount of bills and transfers offered by the Secretary of State should not be taken up

106 That so high a rate of interest is prejudicial to trade is obvious, and Government has not been unmindful of the fact The best way in which Government can assist trade is by providing that the Secretary of State's drawings shall never be curtailed for lack of money to meet them, and in one week demands for bills and telegraph transfers exceeded 77 lakhs Arrangements are also made to grant telegraph transfers freely at a small charge between the three Presidency towns, and Government, besides keeping up the normal current balances, has further been able to offer to the Presidency Banks at Calcutta and Bombay temporary loans at their own minimum rate of interest, if they cared to avail themselves of the offer

107 As the Treasury balances are nearly two crores below last year, and in fact lower than they have been for twenty years at this season, all this would scarcely have been possible without the assistance derived from what are called "currency transfers," a system which, while preserving the Reserve of the Paper Currency Department intact for the payment of the currency notes, yet gives the advantage of a large balance that can be made available without the delay of actual remittance, wherever it may be wanted Thus in the present month the accruing revenue of the opium districts has been allowed to remain in those districts in the charge of a currency agency, an equivalent being immediately released to the Treasury in Calcutta, a fortnight hence this money will be wanted for payments to opium cultivators in the districts, but by that time the Land Revenue from Eastern Bengal will have been received, and, being in like manner made over to the Currency Department, will liberate the coin where it is wanted

108 The charge that Government does not do all it might to assist trade sometimes takes the form of an assertion that the currency balances should be lent out in a time of pressure This is, of course, impossible, as the currency balances are pledged by law to secure the convertibility of the currency notes, and can no more be lent to the market than can the gold in the Issue Department of the Bank of England

109 Another contention is, that the cash balance of the Government of India is too high Now the question whether the Government cash balance is too high or too low, is one that must be determined by the experience of those who actually deal with that balance, and are responsible for seeing that there is sufficient money in the Treasury to meet all the claims against Government

I do not think I exaggerate when I say that every person who has experience of the actual work of dealing with the balances in this country is in favour of rather a high cash balance The question has been frequently considered both in India and in England, and though a cash balance of 10 to 13 crores may seem enormous, yet if we reflect on the special difficulties in the way of suddenly obtaining a large amount of cash in this country, on the sudden and large demands to which Government is exposed, and on the enormous extent of country over which the balance has to be spread, it will easily be recognised that the mere fact of the cash balance being large is no proof that it is larger than is required by the wants of the case

Some authorities hold that, if anything, the Indian cash balance has been kept somewhat too low in recent years In that opinion I am inclined to concur The cash balance of recent years has been low because the claims against the Government were heavy owing to expenditure of all kinds, and it was thought desirable to avoid borrowing more than was absolutely necessary

110 I have mentioned the allegations, (1) that Government ought to lend out the currency balance, and (2) that Government keeps too high a cash balance simply in order to clear the ground There is no force in them, and they could only be made by persons ignorant of the facts of the case I now come to what is the real question, namely, the expediency of the maintenance of the Reserve Treasuries in the Presidency towns Should the Government keep the whole of its spare cash in the Presidency Banks, or should it aim at keeping balances of tolerably constant amounts in those banks, the surplus being kept in the Reserve Treasuries? This is a question which deserves consideration, and on which there may reasonably be a

difference of opinion, though I can hold out no hope of any change in the policy of Government in this respect

The justification for the existence of the Reserve Treasuries is to be found in the special conditions affecting the Indian money market These special conditions are the liability of that market to extreme pressure at times, the difficulty in adding temporarily to the amount of cash by drawing on other markets, and the magnitude of the cash transactions of the Government as compared with those of the trade Under the circumstances I have just stated, and looking to the fact that the Government in case of war famine, or other unexpected cause, is exposed to the risk of having to meet sudden and large demands on it for cash, it was decided by Lord Northbrook's Government that it would be to the interest both of the commercial public and the Government of India that the surplus cash, for the time being, of the Government of India in excess of certain regulated balances in the Presidency Banks and the cash in Mofussil Treasuries, should be kept in Reserve Treasuries

It was held that, if the whole of the surplus cash was kept in the Presidency Banks, trade would rely on the permanence of the resources thus supplied to it and that, in case of a sudden demand for cash, the Government of India would either be forced to abandon its right to reduce its balance in the Presidency Banks, or risk producing a financial crisis by suddenly and largely reducing the resources of these Banks

To show that this is not an imaginary fear, I will quote a telegram received in 1871 from the Government of Bombay

"Clear the line You are placing the exchange banks and trade of Bombay in great danger The eight Exchange Banks are indebted to the Bank of Bombay 65 lakhs of rupees, half payable on demand secured by Government paper, and remainder in February Their balances for current purposes in the Bank of Bombay are under 20 lakhs of rupees, balance of other customers of Bank of Bombay exceedingly low Bank of Bombay has to meet Council Bills for 25 lakhs of rupees arrived from England this morning and similar Bills for 20 lakhs of rupees will shortly arrive Bills on Calcutta absolutely unsaleable If you draw more on Bank of Bombay, they must call in sums due from the Exchange Banks and there will be a general panic and a serious danger of stoppages"

There was at that time a Government balance of about 100 lakhs in the Bank of Bombay, and the proposed withdrawal, which called forth this startling protest from the Governor of that Province, only came to 35 lakhs I do not think a stronger argument could be produced to show the dangers that might arise if the Government of India reverted to the old system of keeping all its spare cash in the Presidency Banks The arguments which weighed with the Government of India in introducing the system of Reserve Treasuries are contained in a Despatch to the Secretary of State, No 256, dated 30th June 1871*, it has been printed in the Appendix to this Statement It will show that the policy of the establishment of Reserve Treasuries was adopted deliberately, and in order to meet real difficulties

111 It has been urged that Government could relieve the market by lending out the balance of the Reserve Treasuries on favourable terms to the Banks but, if this course were followed, the same difficulties that arose when the Presidency Banks held the whole of the surplus balances would again occur Trade would become accustomed to rely on the resources furnished by the Government, and at a time of pressure the withholding of the assistance usually given by Government might have a very serious effect

Despatch from Government of India (Finance and Commerce Department) No 30, dated 2nd February 1899

To the Right Honourable Lord George Francis Hamilton, Her Majesty's Secretary of State for India

My Lord,

We have the honour to submit, for your Lordship's consideration, the following papers relating to the use of the Government Balances in aid of banking resources in India —

1 Report by Finance Sub-Committee to the Committee of the Bengal Chamber of Commerce, on a proposal to make a representation to Government with the view of altering the present system of managing the Treasury Balances so as to allow of funds being placed more freely at the disposal of the public during the busy season of each year

2 Note by the Honourable Sir James Westland, K C S I, on the management of the Government Balances (This is practically the same as the first part of the paper submitted to your Lordship with our Despatch No 332, dated 20th October last)

* See page 30

3 Proceedings of an interview on the 11th January 1899 between a deputation from the Committee of the Chamber and the Honourable Sir James Westland, K C S I, on the question of the management of Government Cash Balances

2 The whole question is sufficiently discussed in these papers and in the papers therein referred to as having been published in the *Gazette of India* of 23rd February 1889, and the proposal we would make to your Lordship is that during the months of January to May of each year, when large sums are withdrawn from the public in payment of Government revenue, it may be recognized as part of the ordinary business of management of the Treasury Balances to lend money to the Presidency Banks at one per cent less than the declared minimum rate of discount of the borrowing Bank It is not our wish, and it might prove embarrassing in our own business, to give the Banks an open credit upon which they may operate or not as they please, but the kind of transaction admissible would be that the Banks might obtain, on the security of Government paper, loans, not less than ten lakhs of rupees on each occasion, repayable after a fixed period of one, two, or three months, but in no case later than 31st May, by which date we should again be in command of our own funds under ordinary conditions We would not pledge ourselves to be always ready to lend, and it must be always remembered that, in the management of the public funds, the requirements of the public administration come before those of trade and commerce, but under ordinary circumstances we consider we could without difficulty spare 1½ crores of rupees during the months in question

3 These arrangements would come within the meaning of the despatch No 225, dated 6th May 1875, of your Lordship's predecessor (see especially paragraph 17), but we consider it desirable to resubmit the case now, as it is mixed up with matters that are at present under the consideration of the Currency Commission

4 It will be observed that the President of the Bengal Chamber of Commerce at the Conference of 11th January, expressed the opinion that advances of the kind would not be required until the Bank rate threatened to exceed 10 per cent We would not consider it necessary to prescribe a condition of the kind, but we believe it is the case that it would not pay the Presidency Banks to take loans on the above terms unless the rate for money approached that figure and threatened to remain very high for some time

5 We cannot say that the proposed facility for borrowing money in India would not in any way interfere with your Lordship's Council Bill operations But as the proposed loans would be only temporary, and the money would have to be returned to the Reserve Treasury by an early date, the effect would not be a permanent one Though it might operate to slightly diminish the demand in January and February it would, in the same measure, increase it in April and May On the other hand, it is to the advantage both of trade generally and through trade, of the demand for Council Bills, that the rates of discount should not be so high as they have been during the last two cold weathers, and we believe that, so far as Council Bill operations are concerned, we may count upon obtaining quite as much advantage in this way, as there may be disadvantage in meeting, in the manner proposed, part of the demand for money during the active season of foreign trade in India

We have the honour to be,
My Lord,
Your Lordship's most obedient, humble Servants,

CURZON OF KEDLESTON
W M A LOCKHART
J WESTLAND
M D CHALMERS
EDWIN H H COLLEN
A C TREVOR
C M RIVAZ

Bengal Chamber of Commerce,
Royal Exchange Building,
Calcutta, 17th December 1898

Memo for the Committee

MANAGEMENT OF THE TREASURY BALANCES

I am directed by the Finance Sub-Committee to submit to the Committee of the Chamber their Report on the proposal to make a representation to Government, with the view of altering the present system of managing the Treasury Balances so as to allow of funds being placed more freely at the disposal of the public during the busy season—February to June of each year

The Finance Sub-Committee have carefully considered the file of papers sent down, and have also had before them reports of the proceedings of the Legislative Council of India in various years, from which they have been able to ascertain what action has previously been taken in regard to the matter by the representatives in the Council of the Mercantile Community They have noted from these proceedings that Sir David Barbour at the meeting of the Council, held on the 27th March 1889, dealt at length with the whole question, and expressed himself in opposition to any change in the existing system Mr Robert Steel and Sir Alexander Wilson, representatives of the Chamber on the Council, have also spoken on different occasions in support of the views expressed by Sir David Barbour

The Finance Sub-Committee, notwithstanding, have reported in favour of a representation being made to Government, as they consider the position is now somewhat changed, and think it is most advisable that, as the season of the year when the Cash Balances are highest coincides with the exporting season when money is most scarce, Government should during that period, lend sufficient cash to the Presidency Banks to enable those Banks always to be in a position to make advances on Government Securities They consider that it is damaging to the credit of Government that Government paper should at any time cease to be a loanable security They have been strengthened in this view by the fact that several witnesses before the Currency Committee, notably Sir Edgar Vincent and Mr A M Lindsay, were in favour of such a course being pursued by Government

The Sub-Committee are of opinion that Government could, without danger, advance sufficient cash to relieve the stringency which generally exists from February to June in each year

W PARSONS,
Secretary

The following is the Report of the Sub-Committee —

The Finance Sub-Committee recognise that in the conditions attaching to both Imperial and trade finance in India, the Government cannot place Treasury Balances at the disposal of trade with so free a hand as is done in England The question before the Committee, however, appears to be not the wholesale surrender of Treasury Funds to the Presidency Banks, but the discretionary disposal of them in periods of stringency If the action of the Government is such as to unnecessarily cause a money stringency at one season of the year, and a deceptive redundancy at another season, it follows that the manipulation of these funds is a potent disturbing influence in our money market

It has been the impression for years that the Government have been sparing of their deposits with the Presidency Banks during the seasons of greatest pressure, with the object of stimulating exchange, and lavish with their deposits in the monsoon months when easy money has helped them to issue new loans

In order to ascertain whether this impression has any justification in fact the Finance Committee have had the following tabulated statements prepared The point to be arrived at is this The collection of revenue, especially the land revenue, withdraws from active circulation considerable sums of money at certain seasons, and it so happens that this withdrawal of money from private hands takes place just when funds are most needed for harvest requirements By comparing the balances in the Civil Treasuries and Reserve Treasuries with the Treasury Balances in the Presidency Banks in March, July, and November of several years, a fair estimate may be formed of the relation between revenue funds held apart and those placed at the disposal of trade (*see* Statement I) These months are selected because, generally, March is the month of acutest trade demand and largest accumulations of revenue, July the month of smallest trade demand, and November the month of smallest Government revenue

I

Statement showing Cash Balances in Government Treasuries, Reserve Treasuries, and Presidency Banks, in the months of March, July, and November from 1888 to 1898

Total Balances in Government Treasuries				Balances in Reserve Treasuries				Balances in Presidency Banks			
Year	Last day of March	Last day of July	Last day of November	Year	Last day of March	Last day of July	Last day of November	Year	Last day of March	Last day of July	Last day of November
1888	13,88,37,000	15,41,25,000	9,34,06,000	1888	71,87,000	1,64,31,000	79,01,000	1888	1,36,72,000	1,95,23,000	1,30,02,000
1889	13,30,51,000	12,70,22,000	9,00,61,000	1889	1,33,87,000	87,55,000	98,70,000	1889	1,12,84,000	1,71,91,000	1,64,01,000
1890	14,71,89,000	13,58,90,000	9,66,89,000	1890	1,11,66,000	2,19,17,000	1,35,80,000	1890	1,75,89,000	1,57,23,000	1,77,76,000
1891	17,87,61,000	14,96,65,000	10,01,07,000	1891	1,01,11,000	3,07,85,000	1,62,11,000	1891	1,11,81,000	1,53,51,000	1,53,91,000
1892	17,82,70,000	14,91,13,000	9,10,00,000	1892	1,60,99,000	1,10,19,000	1,11,20,000	1892	1,38,01,000	1,13,68,000	1,49,67,000
1893	15,27,18,000	11,06,80,000	15,23,81,000	1893	2,11,41,000	10,81,000	5,81,97,000	1893	1,68,03,000	1,69,10,000	1,57,25,000
1894	25,56,66,000	23,58,10,000	16,33,51,000	1894	10,12,59,000	8,72,50,000	5,00,85,000	1894	1,33,67,000	1,51,32,000	1,36,42,400
1895	22,52,96,000	19,11,02,000	10,76,08,000	1895	6,83,00,000	5,08,26,000	1,12,98,000	1895	1,58,29,000	1,15,16,000	1,69,00,000
1896	16,50,06,000	15,03,62,000	7,15,38,000	1896	2,17,41,000	3,76,02,000	1,05,37,000	1896	1,58,25,000	2,23,11,000	1,09,18,000
1897	13,87,38,000	9,25,30,000	8,07,61,000	1897	91,98,000	65,21,000	81,67,000	1897	1,08,03,000	1,34,62,000	1,63,72,000
1898	15,08,26,000	14,97,82,000		1898	3,11,52,000	2,93,06,000		1898	1,98,[illegible]	1,19,11,000	-

Statement II shows that the proportion of balances in Civil Treasuries to Reserve Treasuries, and to the balances deposited with the Presidency Banks, has been on the average as follows —

II

Average Balances 1888–1897 (*inclusive*)

Months	Total Balances Government Treasuries	Reserve Treasuries	Presidency Banks
March -	17,13,82,200	3,33,09,200	1,52,45,000
July	15,32,60,800	3,58,31,700	1,64,82,600
November	10,50,05,800	1,99,31,200	1,52,13,200

These figures appear to support the generally received impression that the Government deposit a proportionately smaller amount with the Presidency Banks during the busy season than at other seasons. It will be seen that the proportion works out as under —

	Total Treasuries	Reserve Treasuries	Presidency Banks
March - -	100	19 44	8 89
July - - -	100	23 38	10 75
November - -	100	18 98	14 49

The Finance Sub-Committee are, therefore, of opinion that the present method of disposing of Government Balances does adversely affect the money market and think that a representation might reasonably be made to Government to increase in proportion to their total funds, their deposits with the Presidency Banks during the busy season. They also think it would be fair to the Presidency Banks if the rate at which Government funds were lent against deposits in times of emergency should be one per cent below the published minimum rate of the Banks.

W. Parsons,
Secretary

Note by the Honourable Sir James Westland, K C S I, on the Management of the Government Balances

To facilitate discussion as to the extent to which Cash Balances of the Government may be made available for commercial uses, I put together in this paper some of the considerations which, from the point of view of the Government, bear upon the question

2 The great difference between the position in this respect of the Treasury in England and that in India may be seen from the following statement, which sets out first the figures relating to England (The figures are taken from the *Economist*, and though they do not precisely correspond as to date, they are good enough for the present purpose) —

(In thousands of £)	Exchequer Balance in the Bank of England	Cash Balance in the Bank of England
End of December 1897	3,785	19,885
,, January 1898	5,991	22,774
,, February 1898	11,907	23,606
,, March 1898	9,918(*a*)	21,662
,, April 1898	5,286	22,720
,, May 1898	7,230	26,046
,, June 1898	4,800(*a*)	27,071

(*a*) The actuals are not available, this figure is taken by deducting from the total Exchequer Balance one million assumed to be the balance in the Bank of Ireland

It will be seen from these figures that the Exchequer could at any time, if necessity arose, realise or spend the whole of the balance at its credit without causing the Bank of England to feel any but a temporary difficulty—a difficulty which possibly might not be great enough to cause any steps of sufficient magnitude to affect, or even to come to the knowledge of, the public

3 Now take the figures for India They are made up in the annexed tables A and B for each week of the quarter, January to March 1898 It has to be remembered that, according to the contracts with the Presidency Banks, the head "Public Deposits" in their weekly returns is practically synonymous with balance at credit of Treasury, the balances of the High Courts and their officers, and of Railway Companies, and some others, which form a not inconsiderable aggregate of public money, lie outside these amounts and are reckoned in the Bank statements as private accounts The average of the 13 weekly returns is —

(Thousands of Rx)	Balance at credit of Government	Cash Balance of the Bank
Head Offices only—		
Bank of Bengal	739	791
Bank of Bombay	527	636
Head Offices and Branches—		
Bank of Bengal	1,576	2,019
Bank of Madras	505	951
Bank of Bombay	873	953

It will be seen that a demand by Government for the use of its balances would leave the Banks with an utterly insufficient amount of cash for their requirements—would in short deplete both the financial centres and the principal towns in the interior of nearly the whole of their current banking balances

4 In comparing England with India in this respect there are two features in the comparison which greatly aggravate the position as regards India First, the balance in the Bank of England, large as it is, is after all only a portion of the available cash in London The number of Banks in London is legion, and even though the bulk of their available balances may be represented by a deposit account with the Bank of England, yet a large amount on the whole remains in their own possession, and the diminution of the balance in the Bank of England by the whole amount it holds at the credit of the Exchequer would be a small tax upon the whole banking balance of the place In India this is not the case, the Cash Balance of the Presidency Banks is a much more important factor in Calcutta or Bombay, for the Exchange Banks hold a comparatively small balance in their own coffers, and even that is it is understood, sometimes an advance from the Presidency Banks Secondly, the nexus between the Bank of England and the general available cash of the country is infinitely closer than that which exists in the case of the Indian Presidency Banks The withdrawal of, say, five millions of Exchequer Balance from the Bank of England for the purpose of meeting Government payments due throughout the country might deplete the available

cash of the Bank of England for a week or two, but the amount would speedily flow back again through a thousand different channels, and the cash position of the Bank would be as strong as ever In India, on the other hand, payments of the kind do not flow back till after a considerable time, and partly do not come back at all A war on the frontier, a famine in a province, or heavy expenditure upon railways will absorb large amounts of cash, part of which dribbles back slowly, and part of which for practical purposes never comes back at all

5 These considerations introduce great difficulty into the management of the Government Balances in India It is not merely that the Government are obliged to have close regard to the demands that are coming upon them in respect of the payments due on Government account during the next few months, but that they are obliged to have regard to future commercial demand also Just as the Directors of the Bank of England or of the Bank of Bengal, when they anticipate a strong commercial demand, would create a position of great danger if they were merely to say "We have so many millions, or so many lakhs in our Treasure chest, and there is therefore no use of our interfering with the demand, let us go on giving out money as long as we possess any," so the Government in India is bound to carefully guard its balances against depletion brought about either by the payments which it has in due course to meet, or by too sudden withdrawal and dispersal through the channels of commercial demand The above-imagined policy on the part of the Bank Directors would inevitably bring about a crisis in a very short time, and carelessness of management of the same kind—a concession to immediate commercial demand, without having any regard to the future—would bring a crisis on the money market in India, much more severe and much more rapid by reason of the smallness, the almost non-existence, of any margin to fall back upon

6 This position of responsibility is forced upon the Government in this country, not of its own will, but because it is accepted by the Banking and the Mercantile Community as the monetary system of India The whole commerce of the country is made to depend upon the Government Balances, and the whole responsibility for the maintenance of an available Cash Reserve in India being thrown upon the Government it is taken for granted that if there is a monetary stringency, it is due to the deliberate action of the Government When Bank Directors, to meet the occasion I have been describing, put up the rate of discount, they are said to do what is wise and proper, both in their own interests and in those of the Commercial Public, when the Government being in India in a similar position takes similar measures, it is considered to be deliberately causing an undue stringency of the money market

7 It is not infrequently alleged in the public press and elsewhere that the Government of India, in their manipulation of Government Balances and of Council Bills systematically pursue this policy of creating for their own purposes a stringency of the kind described They have more than once had occasion to give this theory explicit denial Some important papers on the subject were published in the *Gazette of India* of 23rd February 1889 (page 115, &c), which were intended to show that the one endeavour of the Government in managing their balances was to make things as smooth for the money market as it was possible for them to be, consistently with a system under which the Banks kept very little available money of their own, and depended for their immediately available resources almost entirely upon the margin of funds which the Government kept against possible administrative demands, and which are necessarily hypothecated to public necessities of the kind For example, the weekly financial article in the *Pioneer*, referring to the transactions of the second half of September last, stated that "Government has been busy reducing its balances with the Bank of Bengal and the Bank of Bombay" The real fact, so far as Calcutta is concerned, was that Government during that fortnight paid 50 lakhs of Council Bills out of its balance in the Bank of Bengal (a matter which may be described as being within public knowledge) and the diminution of Government Balance which is the natural and inevitable consequence of the transfer of 50 lakhs from the Government Balance to that of the Exchange Banks was thus quoted as evidence that the Government was withdrawing its balances from commercial use ! It will thus be seen that the criticism under reference contains exactly the mistake which was pointed out in paragraphs 22 and 23 on page 124 of the above quotation from the *Gazette of India*, and that the so-called artificial reduction of Government Balances at the Banks is nothing more or less than the issue of the amount to the public in the form of Council Bills As a matter of fact, not a single rupee was withdrawn from the Bank to the Reserve Treasury during the latter half of the month of September

8 It may be mentioned as regards the Government Balances at the Presidency Banks that for the express purpose of preventing any manipulation of them either in the direction of stringency or of the opposite, they are worked upon a purely mechanical system A maximum and a minimum limit are fixed, both very much in

excess of the minimum stipulated in the contract with the Banks, and the rule is laid down that when the balance is above the maximum the responsible account officer withdraws a certain amount into the Reserve Treasury, when it falls to or below the minimum he passes money into it from the Reserve Treasury This rule is departed from only (1) when the Government are raising a loan, and, in order to let it fall easily on the market, allow the Presidency Banks to retain a nominally excessive Treasury Balance it may be regarded as nominal, because the transaction is the result of a credit to Government on the Bank's books by debit to advances on Government Securities, and the Bank for the moment does not really possess any funds available in cash against it, (2) when the general balance is so severely depleted that for the time the Government cannot spare funds from the District Treasuries to maintain the usual standard of Cash Balance in the Presidency towns There is, therefore, so far as the Bank balance is concerned, no manipulation for the purpose of creating stringency or of affecting the rate of exchange

9 To proceed now to the question of Council Bills It seems almost a truism to say it yet it seems necessary to call it to mind that the amount of Council Bills that can be issued by the Secretary of State is strictly limited The belief that the Government of India refuse to place their funds at the disposal of the Banks is certainly founded in some cases on the mere fact that the Secretary of State has not issued bills for the whole amount required for the payment of the balance of trade The amount which it is possible to draw in a year may, for ordinary times, be reckoned thus

	Rx
Surplus of revenue in India over expenditure in India, including expenditure on Capital Account - -	23,000,000
Money raised by loan in India for Capital Expenditure so far as it is not spent in India, a maximum of -	3,000,000
Total available - - -	26,000,000

These figures vary of course from year to year, but it must be clear that, whatever the figures are, they limit the amount for which the Secretary of State may draw

10 Now, as pointed out at length in the papers of 1889 which have been already quoted, the minimum balance with which it is possible to carry on the business of the Government in India is about eight crores, this eight crores including the balances at credit in the Presidency Banks and their branches The balances went down to that figure and below it in the end of the year 1896, and again in the end of 1897, that is to say, in both of these years the Secretary of State drew, and the Government of India paid out, even more than was consistent with safety, the Secretary of State could not have drawn more for the simple reason that the Government of India had no funds wherewith to pay So anxious were the Government to supply the money market with a full amount of Council Bills that in December 1896 special legislative measures were taken to add to the Cash Balances two crores of rupees out of Currency Reserve, and this enabled the Secretary of State to enhance his drawings by that amount And again in January 1898 a special law was passed to enable the Secretary of State, if necessary, to draw Council Bills against the Currency Reserve In the present year, 1898-99, the Council Bill programme was again based on the calculation that the Government should place at the Secretary of State's disposal, for drawings, everything they could spare subject to the condition of about eight crores remaining in the Cash Balances at the minimum period The prospects as regards balances were much improved by better revenue, and this fact was communicated to the Secretary of State in July and again in September for the express purpose of enabling him to enhance his drawings up to the limit of the capacity of the Government to meet them, and he enhanced them accordingly In this also there is ample evidence that the policy of the Government throughout is the very opposite of seeking to raise exchange by causing stringency They have consistently done their best to place at the disposal of the market every surplus rupee they can spare

11 The Government, in truth, cannot undertake to finance not only the administration of the country, but its trade and commerce also Accordingly, when commerce finds a deficiency of available funds, the cause of the deficiency should be sought for in the scarcity of banking capital and not in some action of the Government, which is expected with resources that are often barely sufficient to meet the financial requirements of its own administration, to supply also all that is wanted for the movements of two hundred crores of imports and exports

12 One difficulty in the regulation of Council Bill drawings lies in the fact that the revenue of Government does not come in equally during the year This is, of course, a necessity in a country where so much of the revenue is land revenue, and has to be collected at the time when the revenue payers can most easily afford to pay it, viz the time of harvesting and disposing of their crops

The following is a rough estimate of the distribution through the year, of the 26 crores which, as above mentioned, become available for drawings, the three crores of debt are taken as received half in July and half in August —

	In thousands of Rx		In thousands of Rx
April	600	October	300
May	1,900	November	700
June	3,000	December	2,500
July	2,500	January	5,500
August	1,300	February	3,100
September	00	March	4,600
		Total	26,000

13 Now, if the Secretary of State could distribute his drawings after the above fashion (or rather take the figures a month later so as to allow the excesses of revenue to be brought down to the Presidency towns to meet his bills) the result would no doubt be that our excess Cash Balances (that is the surplus over what is required for treasuries that are not in charge of Banks) would be wholly, or nearly so, at the disposal of commerce. But this is more a theoretical possibility than a real one. As already explained, there are no funds for Government to fall back upon if it surrenders to commercial uses its own Cash Balances and then suddenly finds that it must alter its programme of revenue and expenditure. There have been two cases of that kind within the last two years. The first was in October 1896, when the rains failed and prospects of famine suddenly made their appearance in India. It was realized that the first and necessary step was to make large remissions of revenue at once; this came upon the Government just as the balances were descending to their minimum and there was no remedy but to call upon the Secretary of State immediately to suspend his drawings, which were being as usual so regulated as to leave no margin in December. The second was in the outbreak of frontier warfare in August and September 1897, when again the Government were obliged to stop the Secretary of State's drawings in order that they might have money to expend on the necessary military operations.

14 It is not possible for the Government therefore, dependent as they are upon their own resources, to carry on the administration with their balance continually hovering about eight crores. They can afford the risk of letting it run down to eight crores in November and December, when it is known that they will be amply in funds again when the revenue comes in in January. But if they had to keep to one figure all the year round they would not be safe under a minimum of eleven crores (that is to say a continual margin, against possible sudden claims, of three crores). Thus the proper way of describing the policy under which the margin of money might be placed at the disposal of commerce would be "Reckon Rx 11,000,000 is your minimum current balance, but inasmuch as you can stand the risk of letting it run down for a month or two, but not longer, to Rx 8,000,000 give commerce the advantage for that month or two of the Rx 3,000,000 you can thus spare."

15 This is really not very far different from the course actually followed, at all events, the argument shows that the money withheld from possible utilisation by commerce is only the excess which is held over Rx 11,000,000, and that it is not possible, from a practical point of view, for the Government to accept as a rule of working "Eight crores is your necessary minimum, and all that you hold in excess of that should be regarded as available for commercial use." In short, eight crores is not a working minimum, it is a point of danger which can be tolerated if it is to last only for a month or two, but which might at any time land the Government in disaster, if they tried to work with it for a longer period.

For example I find that from October 1896 to December 1897 there were only two months in which the Cash Balance was over Rx 12,000,000.

16 The distribution of Council Bills over the twelve months remains entirely in the hands of the Secretary of State, the Government, in India, give him from time to time their recommendations, and especially advice as to the amount they can make available for his drawings, but as the primary object of the Council Bills is to place him in funds for the expenditure which he has to undertake, they leave it to him to consider when drawings may be eased off for want of commercial demand, or increased to meet commercial demand. At the same time the Government are quite aware that the policy of the Secretary of State in the matter is the same as their own, that is, to draw during the twelve months as much as they can meet. The considerations herein set out will show that the utmost the Secretary of State could do, if he were to neglect in regulating his drawings every consideration but that of momentary commercial convenience, would be that he might occasionally be a crore or two ahead of his

drawings as he regulates them on the present system, at the risk of having to pull up after a month or two in order to allow the resources available in India to come up to his demands upon them. The Government pronounce no opinion as to whether it is convenient for commerce to have a crore a week placed at its disposal in February to April, and then have it cut down to 12 or 15 lakhs a week in May. Of course nothing that the Secretary of State can do will increase the total of his drawings over the twelve months.

17. Having thus placed in the hands of the Secretary of State the regulation of the drawings of Council Bills, the Government naturally consider themselves precluded from interfering with his operations by advancing money, even on interest, to the Presidency or other Banks in India. Occasionally, but very rarely, short loans of the kind are made, but it is only for the relief of temporary difficulties. The last occasion on which a proposal of the kind was made was as follows. In April last the Bank of Bombay, whose rate at the time was 13 per cent, asked the Government to advance 25 lakhs to it, for a short time, at 6 per cent. This the Government either formally declined, or were on the point of declining, when the proposal was altered into one to borrow at Bank rate. Within three or four days, however, the stringency of money was relieved, the Bank rate gave way, and it was considered that the necessity for any extraordinary measure had ceased.

J. WESTLAND.

January 1899.

A.

Statement showing the amount of Public Deposits and Cash Balances at the Head Offices of the three Presidency Banks during the first 13 weeks of the year 1898.

(In thousands of rupees.)

Weeks	Public Deposits				Cash Balances		
	Bank of Bengal	Bank of Madras	Bank of Bombay	Total	Bank of Bengal	Bank of Madras	Bank of Bombay
1st week	92,94	19,03	66,78	1,78,75	68,19	Not separately given	55,99
2nd week	1,01,12	24,12	50,39	1,75,63	1,01,12		91,16
3rd week	82,21	25,88	53,45	1,61,54	77,40		91,05
4th week	62,00	28,58	51,84	1,42,42	92,99		76,00
5th week	54,39	26,01	48,67	1,29,07	69,41		46,84
6th week	69,52	22,73	49,88	1,42,13	66,31		58,50
7th week	68,87	22,02	52,71	1,43,60	69,79		36,95
8th week	74,18	22,09	42,49	1,38,76	80,77		56,78
9th week	80,83	19,04	44,38	1,44,25	77,77		33,96
10th week	76,17	26,16	51,33	1,53,66	86,30		63,99
11th week	57,62	25,40	55,44	1,38,46	77,50		69,19
12th week	74,35	26,88	66,46	1,67,69	83,79		79,41
13th week	67,15	18,33	51,72	1,37,20	77,63		67,29
Weekly average for the 13 weeks	73,95	23,56	52,73	1,50,24	79,15		63,62

B

Statement showing the amount of Public Deposits and Cash Balances at the three Presidency Banks and their Branches during the first 13 weeks of the year 1898

(In thousands of rupees)

Weeks	Public Deposits				Cash Balances			
	Bank of Bengal	Bank of Madras	Bank of Bombay	Total	Bank of Bengal	Bank of Madras	Bank of Bombay	Total
1st week - -	1,70,93	28,69	82,74	2,82,36	2,37,17	86,87	85,34	4,09,38
2nd week - -	1,69,31	36,88	65,90	2,72,09	2,43,39	90,12	1,13,07	4,46,58
3rd week -	1,48,43	39,91	71,48	2,59,82	2,10,41	93,58	1,18,53	4,22,55
4th week	1,36,13	57,12	79,36	2,72 61	2,17,92	1,08,56	1,16,35	4,42,83
5th week	1,54,45	55,48	73,17	2,83,10	2,16,80	1,02,28	82,60	4,01,68
6th week	1 61,12	49,86	79,87	2,90,85	2,25,42	92,00	87,82	4,05,24
7th week	1,36,68	43,11	75 35	2,55,14	1,71,67	80,78	67,47	3,19,92
8th week	1,49,83	53,55	77,38	2,80,76	1,76,91	93,06	91,12	3,61,39
9th week - -	1,70,20	50,40	75,10	2,95,70	1 82,80	86,69	69,48	3 40,97
10th week	1,73,42	56,64	88,16	3,18,22	2,05,88	98,12	1,07,06	4,11,06
11th week - -	1,38,93	61,15	1,04,48	3,04,56	1,71,41	96,08	1,06,94	3,74,43
12th week	1,65,80	66,37	1 37,68	3,69,85	1,83,54	1,01,86	1 04 42	3,89,82
13th week	1,73,68	57,82	1,24,89	3,56,39	1,81,20	1,04,56	88,91	3,74,67
Weekly average for the 13 weeks	1,57,61	50,53	87,35	2,95,49	2,01,89	95,12	95,34	3,92,35

Bengal Chamber of Commerce,
Royal Exchange Building, Calcutta,
11th January 1899

A deputation, nominated by the Committee of the Chamber, waited upon the Hon'ble Sir James Westland, K C S I, the Finance Member of His Excellency the Governor-General's Council, at the office of the Legislative Department of the Government of India, this day, to confer with him upon the question of the management of the Government Cash Balances

The deputation consisted of the following gentlemen —

The Hon'ble Mr M C Turner (President of the Chamber)
The Hon'ble Mr Allan Arthur
Mr Reg Murray
Mr W Parsons, Secretary

Mr A Rawlinson, who had also been nominated as a member, was unable to attend

The deputation was received by the Hon'ble Sir James Westland and Mr H H Risley, C I E, Officiating Secretary to the Government of India in the Finance and Commerce Department at 3 o clock p m

Sir James Westland in opening the discussion said —

Gentlemen,—Before I ask you to say anything with respect to the memo I have prepared I would ask your permission to make one or two remarks with regard to the papers the Committee of the Chamber have sent to me The object of the Sub-Committee of the Chamber have in compiling the figures they give is to show, as they state at the end, that "the figures appear to support the generally received impression 'that the Government deposit a proportionately smaller amount with the Presidency 'Banks during the busy season than at other seasons"

That statement is based upon the figures set out in the Report showing that on the average at the end of March 152 lakhs of rupees have been placed with the Presidency

Banks, at the end of July 161 lakhs, and at the end of November 152 lakhs. These figures, of course, are quite correct, but there is one thing to be borne in mind with respect to them. I pointed out in my memo that when loan money was being raised by the Government it was necessary for certain reasons to leave very large nominal balances with the Banks. Such balances are regarded as nominal, because the transaction is the result of a credit to Government on the Bank's books by debit to advances on Government Securities and not of an actual receipt of cash by the Banks. At that time we always make arrangements with the Banks that money shall be left with them, and that we shall not call upon them, except gradually, to pay up the money which they showed to be at our credit on the accounts. The figures for July, if you refer to them, include two very large figures—one in 1888—195 lakhs, and the other in 1896—223 lakhs. You will see that these figures are very much in excess of the amounts that were with the Banks at any other time. Now I have made enquiry with reference to these figures, and I find that taking the two Banks, the Bank of Bengal at Calcutta, and the Bank of Bombay at Bombay, in the month of July 1888, the two Banks received between them 268 lakhs. In 1896 the amount they received was 247 lakhs. On these two occasions these very large sums were left to their credit and they were not normal balances at all. They are the balances which were left in their hands with reference to that special arrangement which it is always necessary to make. I find that if these two large figures are left out of the balances in the Presidency Banks as stated for July, the second statement of the Sub-Committee would show 152 lakhs for March, 138 lakhs for July, and 152 lakhs for November, so that the conclusion would be exactly opposite to that drawn by the Sub-Committee, as the Balances in July would be less than is customary in March and November. But I think if you take all the figures, without taking averages, you will see that they bear out what I say in my Note that practically the balances which we hold at the Presidency Banks are steady. We aim at maintaining them at a particular figure. We are not bound to do so, but it is a sort of understanding between ourselves and the Banks. They do not vary greatly.

Mr Murray. All the year round?

Sir James Westland. Yes. I think if our monthly statement which is sent to the Chamber is looked at, it will be seen that the balances are a fairly steady amount. It varies somewhat, but is rarely as low as 140 laks, or as high as 190 lakhs, but as I say our policy is to maintain a pretty considerable and a fairly steady balance with the Banks. One of the figures shown in the Statement is the balance of November 1896. It went down as low as 109 lakhs. I do not know if you remember the circumstances of 1896. I do very well. At that time our total Cash Balances were down to something like $7\frac{1}{2}$ crores. I know I was very anxious at that time, because I had made arrangements, in coming down from Simla to Calcutta, to go to Bombay and to one or two other places, but I was obliged to come straight down to Calcutta on account of my anxiety connected with the lowness of the balances. But with the exception of that extremely low figure, which was entirely due to the depletion of our General Balances at the time, I think the statement drawn up by the Sub-Committee of the Chamber shows that we maintain a steady balance with the Banks. Although we are not obliged to maintain this steady balance, we wish to maintain it in the absence of any special circumstances. There is one other point I wish to mention. By the last mail I obtained from home a copy of the evidence given by Lord Northbrook before the Committee of Enquiry now sitting in London. It would be rather a long business for me to read out the answer he gave to the Committee when he was asked about this very question of the Government balances, but here is part of what he said:—

"In a crisis in India you want rupees, you want the actual money for payments up country. I can give the Committee an instance of what happened to me in connection with this particular subject. In the year 1874 there was a famine in Bengal, and in order to feed the people we had to buy rice in Burma and send it to Bengal. In order to get the rice we had to pay hard coin, rupees, for it. The banks then had the full use of the Government Balances, and the Bank of Bombay had at that time more than a million rupees—a million and a half, I believe—of the Government balances. In order to pay for the rice, we wanted some of this money. When we asked the Bank for it, we had the greatest difficulty in getting it. The Government of Bombay objected, and it was only after considerable correspondence, and by insisting upon getting our money that we got at last about half a million of the million and a half that they had of our balances."

This subject was also mentioned in the Budget Debate in 1889. Sir David Barbour then quoted the remonstrance which the Government of Bombay sent in, which was to the effect that if the Government withdrew their balance from the Bank of Bombay the Bank would have to call in the sums due from the Exchange Banks, and there would be a general panic and serious danger of stoppages.

Lord Northbrook quotes from the despatch He says —

'It was so serious a condition of things for the Government of India not to be able to get their money when they wanted it, that we addressed the Secretary of State on the subject, and the correspondence is given in the evidence published in the first Report of a Commission now sitting on Indian expenditure at it Question 8258 We said —'We have been much impressed with the 'consideration that the effect of the existing agreements with the Banks 'which compels us to place all the Cash Balances belonging to Government 'in their hands, leads to consequences which may be very inconvenient, if not 'worse both to Government and to trade The only use of these balances to 'Government is that they may be made available the moment the public service 'requires them We have had no difficulty in regard to the balances in the 'hands of the Banks of Bengal and Madras, the Bank of Bombay, however, 'protested against meeting drafts upon it, and on the urgent representations 'of the Governor of Bombay, we were obliged on the 29th January, to allow 'a month's time before drawing The Bank of Bombay accustomed to high 'Government balances, and relying on the maintenance of these balances, had 'so employed them that they were practically locked up, for had we insisted 'on withdrawing them more suddenly, we should have done so in the face of a 'warning that we should produce a commercial crisis, and therefore, for a 'time, the Government balances at Bombay were useless for the purposes of 'the Government' The upshot of it all was that an alteration was made, and at our recommendation the Government now hold about two crores in the Reserve Treasury They are not bound now to keep the whole of their balances in the Banks, and they keep two crores actually in their own hands, which they can use on an emergency I do not think it is safe for the Government of India not to have the absolute command of two crores of rupees"

To a subsequent question Lord Northbrook answers —

'8451 At each Bank do you mean?—No, two crores altogether I do not think it is at all an unreasonable amount, and it is not safe to have less The Government of India are in quite a different position to the Government of England The Government of India, if they want money, could not get it in India to any considerable extent, and if they tried to get it and failed, it would bring them into great discredit Therefore, I do not think the Government should be bound to keep the whole of their balances in the Banks It is not in my opinion, the business of the Government of India to finance Indian Trade, it is the business of commerce to finance Indian Trade At the same time I do not see why the Government of India should not to any reasonable extent assist trade by allowing the use of their balances by the Presidency Banks with proper precautions, but I want to point out that it is not safe to put the whole of the balances in the hands of the Banks, judging by the experience that I myself have had"

Well, Lord Northbrook gives the figures of our requirements at two crores of rupees My Note, which was written before I knew Lord Northbrook's opinion, puts it down at three crores But it must be remembered that Lord Northbrook's experience is based on 1874, and since then the area of our operations has very much increased Then there is another thing Lord Northbrook only had a single contingency in contemplation In 1897 we had two contingencies We had a famine, and on the top of that came the Frontier War, so that we had two calamities to meet at the same time, and two heavy demands Then, I want to point out with reference to this remark of Lord Northbrook, *viz* —

"The Government of India are bound to see that they have the command of a certain sum of money without putting it in the power of the banks to tie it up even for a limited time I am speaking about those two crores which are kept in the Reserve Treasury With regard to the rest of the balances beyond what is required to work the Finance of India, I do not see why the greater portion should not be in the hands of the Presidency Banks"

The practical difficulty in my mind is this that as long as we have a considerable balance in the Reserve Treasury, the fluctuations of balances which are caused by very large demands for the Secretary of State's Bills, or for payments to meet famine requirements, or a sudden outbreak of war, will be met from the Reserve Treasury The Banks know perfectly well that, so long as we have got a balance in the Reserve Treasury, we shall not come down on them for the balances we have left with them But if we make it a rule to hand over to them the balances in excess of a given amount—either two or three crores—it is obvious that any sudden demand will fall upon the Banks and not upon the Reserve Treasury

Mr Murray said that upon that point the Bengal Chamber had always been in agreement with the views expressed by Sir James Westland The speeches made by

Mr Robert Steel, and Sir Alexander Wilson, in the Imperial Legislative Council, were in favour of those views, and he did not think the opinion of the Chamber in that respect had changed It was only in regard to the proportion of the funds that they thought some alteration might possibly be made The point the Committee of the Chamber laid stress upon was that during the months, December to March, when the Government was taking most money from the public, it so happened that the public required most money for harvest operations The money was collected by the Government at precisely the time when it was most urgently wanted The idea was that during that time the amount of the balances with the Presidency Banks should be temporarily increased It was the collection of the Government revenue during those few months that really caused the stringency

Mr Turner said that they only wished to ask Government to come to the assistance of trade at times of great stringency in the money market It appeared to the Committee of the Chamber that more assistance might be given to trade by the Government at the busy season of the year He thought the contingency of people being unable to raise money upon Government paper should be avoided, if possible, as it was damaging to the credit of the Government It was probable that such assistance would only be required so long as exchange remained in its present position When exchange became fixed the Exchange Banks would probably bring out money

Sir James Westland enquired what sum, in the opinion of the deputation, would be required to relieve the stringency

Mr Murray replied that it would not be a large sum, probably an extra crore, or one and a half, or even two crores

Mr Arthur said that he understood the fixed maximum and minimum for Government deposits with the Presidency Banks were the same all the year round, and enquired why the same figures should be fixed for the slack business season when Government balances are low as for the busy season when Government balances are large He thought that Government might so arrange that then balances with the Presidency Banks should be increased during the busy season, seeing that not only do trade demands for accommodation increase at that time, but the supply of money, as pointed out by Mr Murray, was decreased at that period by large withdrawals of currency from circulation by Government

Sir James Westland said that, as he understood the suggestion, it was that the Government should, at the beginning of the busy season lend to the Presidency Banks a certain sum of money which would be recalled at the end of the busy season The Government could not consent to an open credit on which the Banks might operate at their convenience, and any loans of the kind would have to be made under conditions regarding repayment upon fixed dates He himself doubted whether if he were to go to the Bank of Bengal in January and offer them say, 40 lakhs to be returned in April, they would accept the money and pay interest on it for the whole period He thought the interest demanded in such a case should be at the rate of one per cent below the minimum published Bank rate, as suggested by the Sub-Committee

Mr Turner thought the Presidency Banks would take the money for fixed periods of say three months Loans were made for one month, or two months, or three months, and he could not see why the Presidency Banks should have any objection to the Government stipulating that the money must be returned within three months His idea was that the money was not really required until the Bank rate had reached 10 per cent

Mr Arthur said that by the Government lending, say, 40 lakhs to the Presidency Banks, the loanable capital of the country would be increased by that amount The loanable capital of the country was not increased by the sale of Council Bills

Sir James Westland agreed that the sale of Council Bills did not increase the capital of the country, because merchants only got out the Bills for the purpose of meeting immediate demands upon them The money obtained was at once distributed all over the Mofussil

Mr Arthur observed that the treatment of the Treasury Balances was, in his opinion, a minor matter, as compared with the question of Government coming to the assistance of commerce in a time of crisis With reference to the statement in Sir James Westland's Memorandum, paragraph 14, from which it appeared that eleven crores were necessary as a minimum, *i e*, there should be a "continual margin against a possible sudden claim of 3 crores," the Government of India had declined to advance to the Bank of Bombay last April 25 lakhs against Government paper Mr Arthur read an extract from Mr Merwanjee Dalal's evidence before the Currency Committee, describing the extreme stringency in Bombay at that time, and stated that on the 1st of April the Treasury Balances amounted to Rs 15,96,95,000, on 30th April they were Rs 13,69,73,000, and they did not fall below Rs 12,80,00,000 until the end of October He was of opinion that, under the circumstances, the small accommodation asked for, viz, a quarter of a crore, might have been granted

Sir James Westland replied that the substance of the correspondence with the Bank of Bombay had been set out in his memorandum placed in the hands of the

Chamber of Commerce The negotiation had practically dropped, because the Bank rate fell and money became easier, a few days after the proposal was made to borrow the money He could not undertake to say whether if this had not been the case, the loan would have been granted or refused by the Government He said that, as a matter of fact, he had on one or two occasions made loans to the Presidency Banks—usually on the deposit of Government Paper

Mr Arthur observed that at a time of crisis in England it was open to the Government to suspend the Bank Act, but in India there appeared to be no safeguard in a crisis In India where the Currency was inconvertible and therefore inelastic, the necessity of some method of assisting commerce at a time of excessive need was all the greater

Sir James Westland said that there had never been a crisis sufficiently acute in India to necessitate such a step as the suspension of the Bank Act being taken The issuing of Notes in the Currency without receiving an equal amount of coin into the Reserve would be equivalent to the suspension of the Bank Act in England

Mr Murray observed that the Exchange Banks were short of money at the busy season of the year by reason of all their resources being locked up in produce afloat They had not withdrawn money from the foreign trade of India All they had done was to put that money into sterling form The money was used for exactly the same purposes as before

Sir James Westland said that formerly the Exchange Banks used to send out considerable quantities of money to India where it was held in the shape of rupees, but that this was not done now, as the Exchange Banks only got out Council Bills, as they actually wanted them to pay for export bills

Mr Murray pointed out in reply to this that the foreign trade had increased so considerably that the Exchange Banks had to devote their resources almost exclusively to it, and this was evidenced by the fact that Local Banks were now rising to finance the local business which the Exchange Banks had been forced to abandon

After some further discussion, chiefly with reference to the course of action followed by the Exchange Banks, Sir James Westland said that the Deputation would of course understand that it was impossible for him to give a final answer upon the representations laid before him They involved a question of policy which had been the subject of instructions by the Home Government, and were at the present moment under consideration by the Currency Commission, and any representations which had been made on the subject, would require to be laid before the Secretary of State He had little doubt that the Government of India would be willing to make a representation to the Secretary of State in the sense indicated by Mr Arthur, and propose for consideration that a definite amount might be considered available for loans to the Presidency Banks during the months of January, February, and March, when money was being withdrawn from the market by heavy collections of revenue and the Government Treasuries were full He would lay the matter before the Government of India with this object in view

Mr Murray said that the principle on which the Presidency Banks in India regulated their Cash Balances was much the same as that observed by the Bank of England With the exception of the last two or three years when the Bank of England cash has been abnormally large, the proportion of their cash to liabilities has, on the average, been similar to that of the Presidency Banks in India

Mr Turner having thanked Sir James Westland for affording the representatives of the Chamber an opportunity of discussing the question with him, the Deputation withdrew

W PARSONS,
Secretary

Despatch to Government of India, No 87 (Financial), dated India Office, London 4th May 1899

To His Excellency the Right Honourable the Governor General of India in Council

My Lord,

I have considered in Council your Excellency's letter dated the 2nd of February No 30 on the subject of the use of the Government balances in aid of banking resources in India

2 The question was raised by the report of the Finance Sub-Committee of the Bengal Chamber of Commerce, in which it was stated to have "been the impression "for years that the Government have been sparing of their deposits with the Presidency "Banks during the seasons of greatest pressure, with the object of stimulating "exchange, and lavish with their deposits in the monsoon months, when easy money "has helped them to issue new loans"

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* I find on reference to the papers that the Government was on the point of sanctioning the loan, when the Bank rate in Calcutta was reduced from 12 to 11 per cent (20th April), the price of Government Paper rose and Exchange fell The Comptroller General was, [illegible] that in view of these indications that the stringency in the money market had [illegible] it was considered that a loan to the Bank of Bombay was not at present necessary —J W

3 In the note which Sir James Westland wrote in reply, he observed that the Government had more than once had occasion explicitly to deny that they had systematically pursued a policy to create stringency, and he said that there had been no manipulation of the balances to affect the rate of exchange In order to test how far there was any ground for such a belief, I have caused the cash balances to be examined from the time when the Reserve Treasury was instituted, and the following is the result —

Average Government Balances with the Presidency Banks or in the District Treasuries, but excluding the Reserve Treasury (in lakhs), on the last day of each month

Years	Busy Season, January to May			Slack Season, June to December		
	Maximum	Minimum	Mean	Maximum	Minimum	Mean
5 years, 1878–82	1,242	1,055	1,144	1,224	874	1,038
„ 1883–87	1,220	1,020	1,100	1,128	835	952
„ 1888–92	1,316	1,106	1,183	1,245	821	1,017
„ 1893–97	1,431	1,194	1,281	1,274	865	1,062
Or						
6 years, 1893–98	1,406	1,171	1,258	1,266	886	1,072

It will be observed that the amount in the hands of the Presidency Banks (including that in the district treasuries which is not shown separately), during the busy season is now usually much larger than formerly, and although the amount during the slack season has slightly increased, this may be fully explained by the failure to sell bills on India in some of the recent years In the recently published report by the Comptroller-General on the state of the Cash Balances during 1897–98, it is pointed out that at the time of the greatest pressure the amounts in the hands of the Presidency Banks were kept at a fairly high level, the reduction being as far as possible effected at the Government treasuries As to the supposed manipulation of the balances to facilitate the raising of loans, the figures are as follows —

——	Maximum	Minimum	Mean
Average of 14 years in which Loans were raised	1,276	854	1,069
Average of 7 years in which Loans were not raised	1,372	859	1,120

4 At the Conference which was held between Sir James Westland and a deputation from the Committee of the Bengal Chamber of Commerce it was admitted that, as had been pointed out by Mr Robert Steel in 1889, and Sir Alexander Wilson in 1890, when the subject of the management of the Government balances had been discussed in the Legislative Council, any sudden demand for money to meet the exigencies of the Government would fall more heavily on the Banks, if all the balances beyond a limited amount were placed in their hands, but it was suggested that the proportion of the funds at their disposal, and of those retained in the Reserve Treasury might with advantage be altered

5 In order to meet the wishes of the Committee of the Chamber as far as possible, Your Excellency proposes that, during the months of January to May in each year, when large sums are withdrawn from the public in payment of Government revenue, it may be recognised as part of the ordinary business of management of the Treasury balances, to lend money to the Presidency Banks, in sums not less than 10 lakhs of rupees, at one per cent below the declared minimum rate of discount of the borrowing bank, which would be required to deposit Government paper as security, and to repay the money at a definite date, in no case later than the 31st May For such purposes you consider that ordinarily you could spare a crore and a half of rupees without difficulty.

6 I am not sure that I understand the reasons why your Government solicit my sanction to such an arrangement The management of the cash balances in India is entirely within your discretion When it was proposed to institute a Reserve Treasury in order to guard against the risk of public inconvenience on the occurrence of an emergency, the Marquis of Salisbury, in his Despatch of the 6th of May 1875, No 225, though not approving precisely of the suggestions laid before him, left the matter in the hands of the Government of India, observing that it would be competent for the Financial Department either to retain the money so reserved in the Treasury, "or to lend it for short terms under suitable conditions as to interest and security"

7 This expression seems so exactly to cover your proposal that I have to look further for the grounds on which it is made, and I presume that these are contained in the last paragraph of your letter, in which you observe, "We cannot say that the "proposed facility for borrowing money in India would not in any way interfere "with your Lordship's Council Bill operations" You think, however, that the transfer of part of the demand from the busy to the slack season of foreign trade would not operate disadvantageously, while it would tend to prevent the rate of discount in India from rising so high as in 1897 and 1898

8 From this point of view it appears to me that the suggested course is open to considerable objection The remittance to England, at a favourable rate of exchange, of the amount necessary for the discharge of your sterling obligations, is one of the principal points to be aimed at in the management of the balances, and it is therefore desirable to take the utmost advantage of the season when there is the greatest demand for bills on India The postponement of a portion of the Government remittances might stimulate imports on private account, and it might very likely be found that, when the time arrived for calling in the money due to you, the balance of trade had been to some extent adjusted, and that there was no such necessity for remittances from India during the early summer as you had expected

9 I think, further, that any general understanding of the nature proposed would have the effect of inducing the commercial community to rely even more than at present on the assistance of the Government, instead of taking steps to enlarge the amount of loanable capital in the country, the scarcity of which seems to have been the chief cause of the high rates of discount in the year 1897 98

10 In these circumstances I am unable to approve of the proposal that you have laid before me It is impossible to prescribe any specific amount which must be retained in the Reserve Treasury or be otherwise at the command of the Comptroller-General on short notice, in order to meet not merely the disbursements of your Government in India but also the probable amount of remittances to England, and it is essential that an adequate provision should be made for these purposes Subject to this being maintained, I see no objection to your lending money to the Presidency Banks on the security of Government paper, at such rate of interest from time to time, and for such periods, as you think best I am inclined to think that the rate should, as a rule, be not below Bank rate

I have, &c ,
(Sd) GEORGE HAMILTON

Despatch from Secretary of State for India to Government of India, No 147 (Financial), dated 23rd December 1910

To His Excellency the Right Honourable the Governor General of India in Council

My LORD,

Under the decision conveyed in my telegram dated 13th December 1910, the exceptional receipts in 1910–11 due to the high price of opium are to be applied, after allowing for grants to Provincial Governments, to the discharge of temporary debt, but I stated in my telegram of the 19th instant that the discharge will not begin until 1912–13 The explanation of the latter decision is as follows —

The temporary sterling debt on 1st April next will be as shown in the following statement —

Year of Maturity	Maturing Annually	To be discharged at Specified Dates		
	India Bills	India Bonds	Debenture Bonds (issued by Madras and Indian Midland Railway Companies, direct liability assumed by Secretary of State in Council on termination of Contracts with Companies)	Total
	£	£	£	£
1911–12 - -		500,000	1,776,200	2,276,200
1912–13 - -		500,000	1,477,600	1,977,600
1913–14 - -		500,000	1,281,200	1,781,200
1914–15 - -	5,000,000	500,000	—	500,000
1915–16 - -		500,000	407,500	907,500
1916–17 - -		500,000	—	500,000
1917–18 - -		500,000	—	500,000
1918–19 - -		500,000	—	500,000
Total - -	5,000,000	4,000,000	4,942,500	8,942,500

2 On each occasion when any of the India bills shown in the list above become due, the Secretary of State in Council can either discharge them finally or, in accordance with the practice that has been more usual in recent years, can make an issue of bills in replacement But, when India bonds or debentures mature, there would be strong objections to issuing similar securities in replacement Provision for the discharge of bonds and debentures is thus required even more urgently than for the discharge of India bills

3 An amount almost sufficient for repaying the 1,776,200*l* debentures maturing in 1911–12 has already been raised, the issue of India bonds in October 1910 having been fixed at 4,000,000*l* for this purpose, and, as you are aware, it is intended to apply to the discharge of the India bonds maturing in the same year part of the proceeds of the permanent loans of the year But no arrangements have been made to meet the liability for the repayment of debentures and bonds maturing after 1911–12 In these circumstances it will be prudent to hold in reserve—to be used, if necessary, for meeting that liability—the receipts mentioned at the beginning of this Despatch But the desirability of reducing the amount of

India bills in existence, to which attention was drawn in Lord Morley's Despatch No 40 (Railway), dated 13th May 1910, will not be overlooked, and, if it is found possible to discharge bonds and debentures maturing after 1911–12 from sources (such as the proceeds of permanent loans) other than the exceptional receipts from opium and to apply those receipts to the discharge of India bills without replacement, this will be done

I am, &c ,
(Signed) CREWE

Telegram from the VICEROY to the SECRETARY OF STATE
dated 22nd January, 1913

Your telegram of 6th instant Use in India of Indian balances and restrictions of Council bills First, in connexion with possible revision of our agreement with Presidency Banks, a matter which we are still considering, the question has been raised of the balances to be kept with them, whether at the Head Offices or at branches As the Banks urge that, having regard to increased amount of work performed for Government, they are now entitled to more favourable terms, the question in this connexion should be looked upon as one of remuneration Also, the Indian Specie Bank, at the same time as they applied to you, sounded us recently regarding a loan from balances in India With this exception, excluding the representations you mention in your telegram, we have, during the last 10 years, received no formal representations in favour of (1) depositing larger balances with the Presidency Banks, (2) an extension of the practice of special loans to them, or (3) loans to other banks or firms generally At a recent interview with Sir G Fleetwood Wilson, the Calcutta Exchange Banks seemed to regard with disfavour the practice of lending on a large scale In addition, we would remark that, while we are ready, when money is required owing to quite exceptional market stringency, to make advances to Presidency Banks, we have for five or six years past, received no requests for loans of the kind, and this fact has a bearing on the agitation for reserving Indian money for use in India Secondly, our practice is to keep at the Head Offices of the Presidency Banks the following balances —

(1) Bank of Bengal, Rs 70,00,000 or Rs 80,00,000
(2) Bank of Bombay, Rs 40,00,000 to Rs 50,00,000
(3) Bank of Madras, a little over Rs 20,00,000

As a rule we do not allow the balances to exceed, in the case of (1), a crore, and, in the case of (2), half a crore, and the Banks are liable for interest on excesses over these sums if they object to their withdrawal On the flotation of a loan, however, in order to allow it to fall easily on the market, the rule is relaxed and caution is observed in withdrawing money, while in special cases, such as the Arbuthnot failure, very high balances are maintained so that a crisis may be avoided In ordinary cases no amounts are fixed for the balances to be held at the branches of the Presidency Banks, but sometimes, as an encouragement to open new branches, a minimum balance is guaranteed for a certain number of years With regard to the restriction of Council bills, it has always been urged by Mr Webb that they should be limited to the amount required to meet your Home charges, and he made representations in September and October 1912 against the increased weekly allotments then being made, on the ground that they prevented the rise of exchange to specie point and interfered with the importation of gold coin and bullion So far as we can trace, no other representations on this subject have been made

On the points put to us, we think that, although improvements may be from time to time suggested by experience, the practice now obtaining is generally sound, and, having regard to the absence of complaints over a long series of years, that responsible opinion in this country is in agreement with us

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STATEMENT A

Receipts, Disbursements, and Balances in India and England from 1907–08 to 1913–14

1907-08	Budget: India	Budget: England	Budget: Total	Actual: India	Actual: England	Actual: Total	Increase or *decrease*: India	Increase or *decrease*: England	Increase or *decrease*: Total
	£	£	£	£	£	£	£	£	£
A.—*Opening Balance*	10,785,000	4,313 800	15,098,800	10,026,900	5 606,800	15,633,700	*−758 100*	+1,293,000	+534,900
B.—*Receipts*									
1 Revenue	74,393,100	619,700	75,012,800	70,284,600	718,600	71,003,200	*−4,108,500*	+98,900	*−4,009,600*
2 Capital received from Railway Companies	875,600	3,825,000	4,700,600	2,422,300	2,240,500	4,662,800	+1,546,700	*−1,584,500*	*−37,800*
3 Loans issued for the requirements of the current year	2,000,000	3,500,000	5,500,000	1,666,700	4,500,000	6,166,700	*−333,300*	+1,000,000	+666,700
3A Loans issued in advance for the requirements of the following year	—	—	—	—	4,133,000	4,133,000	—	+4,133,000	+4,133,000
4 Unfunded Debt (net)	684,800	—	684,800	515,500	—	515,500	*−169,300*	—	*−169,300*
5 Deposits and Advances (net)*	846,300	*−51 300*	795,000	741,400	101,400	842,800	*−104,900*	+152,700	+47,800
6 Miscellaneous Remittances (net)	25,000	73,700	98,700	1,627,100	*1,587,100*	40,000	+1,602,100	*−1,660,800*	*−58,700*
7 Council Bills and Transfers	—	18,100,000	18,100,000	—	15,705,700	15 705,700	—	*−2,394,300*	*−2,394,300*
Total Receipts	78,824,800	26,067,100	104,891,900	77,257,600	25,812,100	103,069,700	*−1,567,200*	*−255,000*	*−1,822,200*
C.—*Disbursements*									
8 Expenditure chargeable to Revenue	56,278,500	18,402,900	74 681,400	53,231,100	18,487,300	71,718,400	*−3,047,400*	+84,100	*−2,963,000*
9 Capital outlay on Railways and Irrigation Works	2,693,300	8,040,900	10 734,200	4,676,800	7,689,500	12,366,300	+1,983,500	*−351,400*	+1,632,100
10 Discharge of Debt	85,100	500,000	585,100	83,700	634,800	718,500	*−1,400*	134,800	+133,400
11 Loans and Advances (net)	80,300	—	80,300	1,221,100	—	1,221,100	+1,140,800	—	+1,140,800
12 Council Bills and Transfers	18,103,900	—	18,103,900	15,220,400	—	15,220,400	*−2,883,500*	—	*−2,883,500*
Total Disbursements	77,241,100	26,943,800	104,184,900	74,433,100	26,811,600	101,244,700	*−2,808,000*	*−132,200*	*−2,940,200*
D.—*Closing Balance*	**12,368,700**	**3,437,100**	**15,805,800**	**12,851,400**	**4,607,300**	**17,458,700**	**+482,700**	**+1,170,200**	**+1,652,900**

* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve

STATEMENT A —*continued*

Receipts, Disbursements, and Balances in India and England from 1907–08 to 1913–14 —*continued*

—	1908-09								
	Budget			Actual			Increase or *decrease*		
	India	England	Total	India	England	Total	India	England	Total
	£	£	£	£	£	£	£	£	£
A —*Opening Balance*	12,310,200	5,109,400	17,419,600	12,851,400	4,607,300	17,458,700	+541,200	*−502,100*	+39,100
B —*Receipts*									
1. Revenue	72,818,300	620,600	73,438,900	69,159,800	601,700	69,761,500	*−3,658,500*	*−18,900*	*−3,677,400*
2 Capital received from Railway Companies	*−72,900*	4,900,000	4,827,100	37,100	5,289,800	5,326,900	+110,000	+389,800	+499,800
3 Loans issued for the requirements of the current year	2,000,000	1,246,000	3,246,000	1,333,300	5,867,000	7,200,300	*−666,700*	+4,621,000	+3 954,300
3A Loans issued in advance for the requirements of the following year	—	—	—	—	4,475,000	4,475,000	—	+4,475,000	+4,475,000
4 Unfunded Debt (net)	453,500	—	453,500	251,400	—	251,400	*−202,100*	—	*−202,100*
5 Deposits and Advances (net)*	487,300	8,000	495,300	96,900	151,900	248,800	*−390,400*	+143,900	*−246,500*
6 Miscellaneous Remittances (net)	*−1,846,000*	1,897,200	51,200	*−2,634,500*	2,357,400	*−277,100*	*−788,500*	+460,200	*−328,300*
7 Council Bills and Transfers	—	18,500,000	18,500,000	—	12,423,900	12,423,900	—	*−6,076,100*	*−6,076,100*
Total Receipts	73,840,200	27,171,800	101,012,000	68,244,000	31,166,700	99,410,700	*−5,596,200*	+3,994,900	*−1,601,300*
C —*Disbursements*									
8 Expenditure chargeable to Revenue	54,783,400	18,609,100	73,392,500	55,241,400	18,925,100	74,166,500	+458,000	+316,000	+774,000
9 Capital outlay on Railways and Irrigation Works	1,216,100	9,047,300	10,263,400	3,062,900	7,999,200	11,062,100	+1,846,800	*−1,018,100*	+798,700
10 Discharge of Debt	84,600	865,800	950,400	175,600	865,800	1,041,400	+91,000	—	+91,000
11 Loans and Advances (net)	207,200	—	207,200	548,200	—	548,200	+341,000	—	+341,000
12 Council Bills and Transfers	17,989,000	—	17,989,000	11,831,800	—	11,831,800	*−6,157,200*	—	*−6,157,200*
Total Disbursements	74,280,300	28,522,200	102,802,500	70,859,900	27,790,100	98,650,000	*−3,420,400*	*−732,100*	*−4,152,500*
D —*Closing Balance*	**11,870,100**	**3,759,000**	**15,629,100**	**10,235,500**	**7,983,900**	**18,219,400**	*−1,634,600*	**+ 4,224,900**	**+ 2,590,300**

	1909-10								
	Budget			Actual			Increase or *decrease*		
	India	England	Total	India	England	Total	India	England	Total
	£	£	£	£	£	£	£	£	£
A.—*Opening Balance*	10,232,600	7,698,000	17,930,600	10,235,500	7,983,900	18,219,400	+2,900	+285,900	+288,800
B.—*Receipts*									
1 Revenue	73,105,500	645,100	73,750,900	73,882,300	711,200	74,593,500	+776,800	+65,800	+842,600
2 Capital received from Railway Companies	64,700	2,100,000	2,164,700	121,900	2,459,100	2,581,300	+57,200	+59,400	+116,600
3 Loans issued for the requirements of the current year	1,667,300	2,823,700	4,491,000	1,666,600	2,699,600	4,366,200	*−700*	*−124,100*	*−124,800*
3A Loans issued in advance for the requirements of the following year	—	—	—	—	6,370,000	6,370,000	—	+6,370,000	+6,370,000
4 Unfunded Debt (net)	853,500	—	853,500	783,200	—	783,200	*−70,300*	—	*−70,300*
5 Deposits and Advances (net)*	803,600	*−500*	803,100	949,100	*−103,600*	845,500	+145,500	*−103,100*	+42,400
6 Miscellaneous Remittances (net)	37,000	*−63,100*	*−26,100*	534,300	*−218,000*	286,300	+497,300	*−184,600*	+312,700
7 Council Bills and Transfers	—	16,200,000	16,200,000	—	18,006,600	18,006,600	—	+1,806,600	+1,806,600
Total Receipts	76,531,600	22,005,200	98,536,800	77,937,100	29,895,200	107,832,600	+1,405,800	+7,890,000	+9,295,800
C.—*Disbursements*									
8 Expenditure chargeable to Revenue	54,358,100	19,362,400	73,720,500	53,969,900	19,122,900	73,092,800	*−388,200*	*−239,500*	*−627,700*
9 Capital outlay on Railways and Irrigation Works	4,232,400	6,832,700	11,065,100	3,771,600	5,747,700	9,519,300	*−460,800*	*−1,085,000*	*−1,545,800*
10 Discharge of Debt	129,200	179,400	308,600	148,500	209,400	357,900	+19,300	+30,000	+49,300
11 Loans and Advances (net)	*−282,300*	—	*−282,300*	*−809,100*	—	*−809,100*	*−526,800*	—	*−526,800*
12 Council Bills and Transfers	16,064,300	—	16,064,300	18,796,600	—	18,796,600	+2,732,300	—	+2,732,300
Total Disbursements	74,501,700	26,374,500	100,876,200	75,877,500	25,080,000	100,957,500	+1,375,800	*−1,294,500*	+81,300
D.—*Closing Balance*	**12,262,500**	**3,328,700**	**15,591,200**	**12,295,400**	**12,799,100**	**25,094,500**	**+32,900**	**+9,470,400**	**+9,503,300**

* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve

STATEMENT A —*continued*

RECEIPTS, DISBURSEMENTS, and BALANCES in India and England from 1907–08 to 1913–14—*continued*

—	1910-11								
	BUDGET			ACTUAL			Increase or *decrease*		
	India	England	Total	India	England	Total	India	England	Total
	£	£	£	£	£	£	£	£	£
A —*Opening Balance*	11,902,400	12,739,300	24,641,700	12,295,400	12,799,100	25,094,500	+393,000	+59,800	+452,800
B —*Receipts*									
1 Revenue	74,813,000	641,400	75,454,400	79,706,600	975,900	80,682,500	+4,893,600	+334,500	+5,228,100
2 Capital received from Railway Companies	254,800	2,597,500	2,852,300	80,800	2,294,300	2,375,100	*−174,000*	*−303,200*	*−477,200*
3 Loans issued for the requirements of the current year	1,000,000	2,839,600	3,839,600	1,000,000	3,014,800	4,014,800	—	+175,200	+175,200
3A Loans issued in advance for the requirements of the following year	—	—	—	—	2,210,000	2,210,000	—	+2,210,000	+2,210,000
4 Unfunded Debt (net)	1,119,200	—	1,119,200	1,164,900	—	1,164,900	+45,700	—	+45,700
5 Deposits and Advances (net)*	833,500	9,800	843,300	1,029,000	99,700	1,128,700	+195,500	+89,900	+285,400
6 Miscellaneous Remittances (net)	618,500	*−58,200*	560,300	*−298,900*	502,300	203,400	*−917,400*	+560,500	*−356,900*
7 Council Bills and Transfers	—	15,500,000	15,500,000	—	23,638,300	23,638,300	—	+8,138,300	+8,138,300
Total Receipts	78,639,000	21,530,100	100,169,100	82,682,400	32,735,300	115,417,700	+4,043,400	+11,205,200	+15,248,600
C —*Disbursements*									
8 Expenditure chargeable to Revenue	56,004,700	19,695,900	75,700,600	55,203,400	19,581,500	74,784,900	*−801,300*	*−114,400*	*−915,700*
9 Capital outlay on Railways and Irrigation Works	6,564,400	6,239,700	12,804,100	3,548,800	5,188,000	8,736,800	*−3,015,600*	*−1,051,700*	*−4,067,300*
10 Discharge of Debt	128,400	3,067,900	3,196,300	164,100	4,067,900	4,232,000	+35,700	+1,000,000	+1,035,700
11 Loans and Advances (net)	*−129,300*	—	*−129,300*	*−750,200*	—	*−750,200*	*−620,900*	—	*−620,900*
12 Council Bills and Transfers	15,503,900	—	15,503,900	23,244,800	—	23,244,800	+7,740,900	—	+7,740,900
Total Disbursements	78,072,100	29,003,500	107,075,600	81,410,900	28,837,400	110,248,300	+3,338,800	*−166,100*	+3,172,700
D —*Closing Balance*	**12,469,300**	**5,265,900**	**17,735,200**	**13,566,900**	**16,697,000**	**30,263,900**	**+1,097,600**	**+11,431,100**	**+12,528,700**

* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve

	1911-12								
	Budget			Actual			Increase or *decrease*		
	India	England	Total	India	England	Total	India	England	Total
	£	£	£	£	£	£	£	£	£
A—*Opening Balance*	12,465,500	16,055,500	28,521,000	13 566,900	16,697,000	30,263,900	+1 101,400	+641,500	+1,742,900
B—*Receipts*									
1. Revenue	77,228,700	806,200	78,034,900	81,743,400	1,092,400	82,835,800	+4,514,700	+286,200	+4,800,900
2 Capital received from Railway Companies	31,200	1,357,500	1,388,700	49,900	—	49,900	+18,700	*−1,357,500*	*−1,338,800*
3 Loans issued	1,333,300	3,137,500	4,470,800	1,333,300	2,855,100	4,188,400	—	*−282,400*	*−282,400*
4 Unfunded Debt (net)	1,123,300	—	1,123,300	1,815,200	—	1,815,200	+691,900	—	+691,900
5 Deposits and Advances (net)*	376,000	700	376,700	1,697,200	*−46,600*	1,650,600	+1,321,200	*−47,300*	+1,273,900
6 Miscellaneous Remittances (net)	*−282,900*	285,100	2,200	*−529,000*	578,500	49,500	*−246,100*	+293,400	+47,300
7 Council Bills and Transfers	—	15,825,000	15,825,000	—	25 070,200	25,070,200	—	+9,245,200	+9,245,200
Total Receipts	79,809,600	21,412,000	101,221,600	86,110,000	29 549,600	115,659,600	+6,300,400	+8,137,600	+14,438,000
C—*Disbursements*									
8. Expenditure chargeable to Revenue	59,020,100	19,911,600	78,931,700	57,968,700	19,957,700	77,926,400	*−1,051,400*	+46,100	*−1,005,300*
9 Capital outlay on Railways, Irrigation Works, and Delhi	4 757,100	6,041,500	10,798,600	4,419,000	5,082,700	9,501,700	*−338 100*	*−958,800*	*−1,296,900*
10 Discharge of Debt	105,700	2,776,200	2,881,900	89,100	2,816,200	2,905,300	*−16,600*	+40 000	+32 400
11 Loans and Advances (net)	83,300	—	83,300	*−8,800*	—	*−8,800*	*−92,100*	—	*−92,100*
12 Council Bills and Transfers	15,825,700	—	15,825,700	24,929 200	—	24,929,200	+9,103,500	—	+9,103,500
Total Disbursements	79,791,900	28,729,300	108,521,200	87,397,200	27,856,600	115,253,800	+7,605,300	*−872,700*	+6,732,600
D—*Closing Balance*	**12,483,200**	**8,738,200**	**21,221,400**	**12,279,700**	**18,390,000**	**30,669,700**	**+203,500**	**+9,651,800**	**+9,855,300**

* Including Capital Account of Local Boards but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve

STATEMENT A—*continued*

Receipts, Disbursements, and Balances in India and England, from 1907-08 to 1913-14

—	1912-13								
	Budget			Revised Estimate			Increase or *decrease*		
	India	England	Total	India	England	Total	India	England	Total
	£	£	£	£	£	£	£	£	£
A—*Opening Balance*	11,808,200	18,320,600	30,128,800	12,279,700	18,390,000	30,669,700	+471,500	+69,400	+540,900
B—*Receipts*									
1 Revenue	78,609,500	744,500	79,354,000	86,082,100	970,300	87,052,400	+7,472,600	+225,800	+7,698,400
2 Capital received from Railway Companies	150,300	1,810,000	1,960,300	50,000	495,000	545,000	*—100,300*	*—1,315,000*	*—1,415,300*
3 Loans issued	2,000,000	3,000,000	5,000,000	2,000,000	3,000,000	5,000,000	—	—	—
4 Unfunded Debt (net)	1,318,700	—	1,318,700	1,741,400	—	1,741,400	+422,700	—	+422,700
5 Deposits and Advances (net)*	401,000	—	401,000	960,100	*—171,500*	788,600	+559,100	*—171,500*	+387,600
6 Miscellaneous Remittances (net)	*—391,000*	394,400	3,400	6,165,400	*—6,007,800*	157,600	+6,556,400	*—6,402,200*	+154,200
7 Council Bills and Transfers	—	15,500,000	15,500,000	—	25,660,000	25,660,000	—	+10,160,000	+10,160,000
Total Receipts	82,088,300	21,448,900	103,537,400	96,999,000	23,916,000	120,915,000	+14,910,500	+2,497,100	+17,407,600
C—*Disbursements*									
8 Expenditure chargeable to Revenue	59,390,500	20,042,900	79,433,400	59,176,600	20,408,200	79,584,800	*—213,900*	+365,300	+151,400
9 Capital outlay on Railways, Irrigation Works, and Delhi	5,372,500	6,527,200	11,899,700	4,588,800	7,077,300	11,666,100	*—783,700*	+550,100	*—233,600*
10 Discharge of Debt	91,300	6,477,600	6,568,900	85,400	6,477,600	6,563,000	*—5,900*	—	*—5,900*
11 Loans and Advances (net)	405,400	—	405,400	9,300	—	9,300	*—396,100*	—	*—396,100*
12 Council Bills and Transfers	15,769,000	—	15,769,000	25,874,700	—	25,874,700	+10,105,700	—	+10,105,700
Total Disbursements	81,028,700	33,047,700	114,076,400	89,734,800	33,963,100	123,697,900	+8,706,100	+915,400	+9,621,500
D—*Closing Balance*	**12,868,000**	**6,721,800**	**19,589,800**	**19,543,900**	**8,372,900**	**27,916,800**	**+6,675,900**	**+1,651,100**	**+8,327,000**

* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve

	1913-14 Budget India	1913-14 Budget England	1913-14 Budget Total
	£	£	£
A.—*Opening Balance*	19,543,900	8,372,900	27,916,800
B.—*Receipts*			
1 Revenue	81,522,600	801,900	82,324,500
2 Capital received from Railway Companies	156,100	3,000,000	3,156,100
3 Loans issued	2,000,000	—	2,000,000
4 Unfunded Debt (net)	1,501,400	—	1,501,400
5 Deposits and Advances (net)*	657,800	*—400*	657,400
6 Miscellaneous Remittances (net)	*—1,311,800*	1,243,700	*—68,100*
7 Council Bills and Transfers	—	21,650,000	21,650,000
Total Receipts	84,526,100	26,695,200	111,221,300
C.—*Disbursements*			
8 Expenditure chargeable to Revenue	63,529,500	20,381,300	83,910,800
9 Capital outlay on Railways, Irrigation Works, and Delhi	6,143,700	8,813,200	14,956,900
10 Discharge of Debt	87,300	1,781,200	1,868,500
11 Loans and Advances (net)	112,800	—	112,800
12 Council Bills and Transfers	21,650,000	—	21,650,000
Total Disbursements	91,523,300	30,975,700	122,499,000
D.—*Closing Balance*	12,546,700	4,092,400	16,639,100

* Including Capital Account of Local Boards, but excluding Provincial Adjustments and Cash held on behalf of the Gold Standard Reserve

STATEMENT B

Closing Balances in India and England on 31st March from 1893 to 1914 (rupees are converted at Rs 15 = £1)

Omitting Cash held on behalf of Gold Standard Reserve

Year ending	Budget			Actual			Adjusted Actuals, i e, Actuals after deducting amounts shown in footnotes		
	India	England	Total	India	England	Total	India	England	Total
	£	£	£	£	£	£	£	£	£
31st March 1893 -	8,865,896	2,176,150	11,042 046	10,181,171	2,268,385	12,449,556			
,, 1894 - -	8,428,737	1,972,526	10,401,263	17,043,725	1,300,564	18,344,289			
,, 1895 - -	14,456,171	1,711,488	16,167,659	15,019,659	2,503,124	17 522,783			
,, 1896 - -	10,708,459	1,676,464	12,384,923	11,000,340	3,393,798	14,394,138			
,, 1897 - -	9,370,659	2,463,824	11,834,483	9,249,168	2,832,354	12,081,522			
,, 1898 - -	8,881,140	2,271,298	11,152,438	10,654,962	2,534,244	13,189,206			
,, 1899 - -	10,805,968	2,242,854	13,048,822	11,177,669	3,145,768	14,323,437			
,, 1900 - -	11,119,629	2,817,344	13,936,973	8,425,827	3,330,943	11,756,770			
,, 1901 - -	9,066,869	2,021,568	11,088,437	8,767,687	4,091,926	12,859,613			
,, 1902 - -	10,500,327	2,605,943	13,106,270	11,880,301	6,693,137	18,573,438			

„ 1903 - -	10,832,381	4,050,726	14,883,107	12,081,388	5,767,787	17,849,175			
„ 1904 - -	11,496,301	3,934,637	15,430,938	11,702,394	7,294,782	18 997,176			
„ 1905 - -	11,060,616	4,567,287	15,627,903	10,597,770	10,262,581	20,860,351			
„ 1906 - -	12,160,052	5,323,182	17,483,234	11,494,578	8,436,519	19,931,097			
„ 1907 - -	12,305,770	5,218,981	17,524,751	10,026,932	5,606,812	15,633,744			
„ 1908 - -	12,368,757	3,437,119	15,805,876	12,851,413	4,607,266[1]	17,458,679[1]	12,851,413	474,266	13,325,679
„ 1909 - -	11,870,137	3,759,012	15,629,149	10,235,483	7,983,898[2]	18,219,381[2]	10,235,483	5,508,898	13,744,381
„ 1910 - -	12,262,563	3,328,689	15,591,252	12,295,428	12,799,094[3]	25,074,522[3]	12,295,428	6,429,094	18,724,522
„ 1911 -	12,469,327	5,265,915	17,735,242	13,566,922	16,696,990[4]	30,263,912[4]	13,566,922	12,583,990	26,150,912
„ 1912 - -	12,483,228	8,738,218[5]	21,221,446[5]	12,279,689	18,390,013[6]	30,669,702[6]	12,279,689	15,246,013	27,525,702
„ 1913 - -	12,868,022	6,721,849	19,589,871	19,543,900 (Revised Estimate)	8,372,900 (Revised Estimate)	27,916,800 (Revised Estimate)			
„ 1914 -	12,546,700	4,092,400	16,639,100						

[1] Including 4,133,000l received from loan issued in January 1908 towards capital requirements of 1908-09
[2] Including 4,175,000l received from loan issued in February 1909 towards capital requirements of 1909-10
[3] Including 6,370,000l received from loan issued in January 1910 to provide for capital requirements of 1910-11
[4] Including 2,210,000l received from loan raised in 1910-11 towards providing for capital requirements of 1911-12, and 1 903 000l being part of "Opium Surplus" received in 1910-11 and specially held towards providing for the discharge of temporary debt after 1911-12
[5] Including the 1,903 000l shown in Note 4
[6] Including 3,144,000l specially held towards providing for the discharge of temporary debt after 1911-12 (viz, the 1,903,000l shown in Notes 4 and 5 and 1,241 000l from "Opium Surplus" received in 1911-12)

STATEMENT C

Distribution of Balances in India, 1895–96, 1900–01, 1905–06, 1910–11, 1911–12, 1912–13 (Rupees are converted at Rs 15 = £1)

—	(1) In the Head Offices of the three Presidency Banks	(2) In the three Reserve Treasuries	(3) In District Treasuries and Branches of Presidency Banks: Number of District Treasuries	(a) In District Treasuries †	Number of Branches	(b) In Branches of Presidency Banks †	Total	Total of (a) and (b)	(4) Total of columns 1, 2, & 3	(5) Total in Presidency Banks, (column 1 + column 3 (b))
	£	£		£		£		£	£	£
30th June 1895	1,020,867	4,921,000		—		—		8,193,266	14,135,133	—
30th September 1895	1,041,667	1,311,600		—		—		6,814,533	9,167,800	—
31st December 1895	941,333	581,667		—		—		5,589,800	7,112,800	—
31st March 1896	1,055,000	1,434,867	253	6,696,200	28	1,814,200	281	8,510,400	11,000,267	2,869,200
30th June 1900	1,059,400	1,460,667		—		—		6,230,333	8,750,400	—
30th September 1900	1,106,867	1,041,800		—		—		4,367,333	6,516,000	—
31st December 1900	1,094,333	1,379,200		—		—		4,222,667	6,696,200	—
31st March 1901	948,333	2,581,467	255	5,841,333	29	1,227,800	284	7,069,133	10,598,933	2,176,133
30th June 1905	1,165,600	2,757,000		—		—		7,791,467	11,714,067	—
30th September 1905	1,128,533	3,780,133		—		—		6,419,934	11,328,600	—
31st December 1905	1,064,600	1,585,000		—		—		4,839,533	7,489,133	—
31st March 1906	1,101,867	2,732,133	266	6,875,067	26	1,072,333	292	7,947,400	11,781,400	2,174,200
30th June 1910	974,000	5,601,667		—		—		6,857,000	13,432,467	—
30th September 1910	1,356,200	4,789,133		—		—		6,293,200	12,438,533	—
31st December 1910	1,296,800	1,877,333		—		—		5,611,333	8,785,467	—
31st March 1911	1,114,467	4,437,667	270	6,384,200	36	1,630,533	306	8,014,733	13,566,867	2,745,000
30th June 1911	1,131,700	5,454,300		—		—		7,568,200	14,154,200	—
30th September 1911	1,081,500	3,791,500		—		—		6,942,500	11,815,500	—
31st December 1911	1,056,600	2,143,300		—		—		6,540,800	9,740,700	—
31st March 1912	1,402,500	3,506,000	270	5,790,700	36	1,580,500	306	7,371,200	12,279,700	2,983,000
30th June 1912	1,418,800	6,308,900		—		—		6,945,400	14,673,100	—
30th September 1912	1,336,500	9,657,600		—		—		6,429,500	17,423,600	—
31st December 1912	1,201,900	7,078,700		—		—		6,382,100	14,662,700	—
31st March 1913	1,595,400	8,908,700	271	6,607,400	35	2,156,700	306	8,764,100	19,268,200	3,752,100

* It has not been found possible to eliminate sums temporarily held in the Balances pending transfer to the Gold Standard Reserve The sums in question are —On 31st March 1901, 1,831,294l, on 31st March 1906, 286,879l

† Figures not available except for 31st March in each year

STATEMENT D

Liabilities and Assets of the Presidency Banks, 1890, 1891, 1892, 1910, 1911, and 1912.

The figures in the tables below are taken from the last Weekly Statement for each Quarter

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BANK OF BENGAL

Last week in	Liabilities: Capital and Reserve	Liabilities: Public Deposits (Liabilities to Government): Head Office	Liabilities: Public Deposits: Branches	Liabilities: Public Deposits: Total	Liabilities: Other Liabilities	Assets: Securities	Assets: Advances, Loans Credits Bills discounted, &c	Assets: Sundries	Assets: Cash and Currency Notes	Percentage of Public Deposits to Capital and Reserve	Percentage of Public Deposits to Cash and Currency Notes
	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs		
Mar 1890	2,58,00,000	Not shown separately	Not shown separately	1,85,52,686	3,06,83,656	83,53,418	4,98,59,027	21,68,749	1,46,55,148	71 7	126 5
June 1890	2,58,00,000			2,37,52,215	4,08,59,140	1,68,63,061	3,79,24,027	19,84,570	3,36,39,696	91 8	70 5
Sept 1890	2,47,00,000			2,01,69,391	6,04,90,560	2,20,10,041	2,48,43,976	26,58,705	5,58,47,227	81 8	36
Dec 1890	2,47,00,000			1,97,59,184	7,09,95,600	2,08,81,880	2,83,11,447	36,40,181	6,26,21,275	80 1	31 6
Mar 1891	2,47,00,000			2,01,59,164	5,94,37,985	1,69,69,128	4,22,27,252	43,31,718	4,07,69,049	81 7	49 5
June 1891	2,47,00,000			2,75,29,090	7,39,34,066	2,13,48,035	3,54,18,810	45,31,799	6,48,64,501	111 3	42 4
Sept 1891	2,47,00,000			2,07,10,080	6,56,73,436	2,04,87,084	3,43,88,616	52,99,121	5,09,08,694	83 8	40 7
Dec 1891	2,47,00,000			1,64,18,257	6,60,66,550	1,79,02,114	3,88,37,357	59,05,948	4,45,39,387	66 4	36 8
Mar 1892	2,47,00,000			2,17,48,438	4,83,55,805	1,20,87,465	4,96,56,275	36,57,690	2,94,02,813	83 8	74
June 1892	2,47,00,000			1,75,98,538	5,63,19,486	1,87,97,304	4,20,82,727	33,47,588	3,43,90,404	71 3	51 1
Sept 1892	2,48,00,000			1,83,07,088	5,84,55,027	1,64,80,765	3,30,98,139	29,08,377	4,90,74,833	73 8	37 2
Dec 1892	2,48,00,000			1,41,10,165	5,83,21,163	1,16,28,352	4,60,59,017	30,84,101	3,64,59,857	56 8	38 6
									Average	79 5	52 9
Mar 1910	3,70,00,000	79,19,657	1,12,51,669	1,91,71,327	16,71,61,511	3,95,91,982	13,07,91,832	23,86,260	5,05,62,763	51 9	37 9
June 1910	3,70,00,000	91,69,365	94,79,310	1,86,48,675	17,76,76,815	3,34,16,280	10,67,62,777	22,94,849	9,08,51,584	50 3	20 5
Sept 1910	3,73,00,000	84,05,073	1,09,07,159	1,93,12,232	18,10,88,320	3,61,56,286	11,80,80,687	24,28,262	8,10,35,317	51 7	23 8
Dec 1910	3,73,00,000	84,87,071	91,42,150	1,76,29,221	16,14,57,449	3,68,61,148	12,52,65,285	30,21,611	5,12,38,626	47 0	34 5
Mar 1911	3,75,00,000	84,25,493	1,21,50,961	2,05,76,454	16,39,02,014	3,77,53,235	12,51,47,988	23,94,665	5,66,82,580	54 9	36 3
June 1911	3,75,00,000	92,98,250	1,11,49,065	2,04,47,316	15,87,42,827	2,85,76,524	10,77,50,197	22,91,207	7,80,72,214	54 4	26 1
Sept 1911	3,79,00,000	54,76,243	1,39,04,495	1,93,80,738	16,94,52,147	3,28,10,864	12,37,83,589	24,59,972	6,76,78,459	51 2	28 6
Dec 1911	3,79,00,000	84,48,350	1,44,51,550	2,28,99,900	17,20,54,729	3,24,29,213	11,88,97,835	22,82,173	7,92,45,378	60 4	28 9
Mar 1912	3,80,00,000	87,73,354	1,04,05,560	1,91,78,915	16,60,10,826	3,11,03,588	12,33,25,083	26,45,409	6,61,15,660	50 5	29 0
June 1912	3,80,00,000	90,55,465	1,09,19,308	1,99,74,773	16,37,03,322	3,06,06,437	11,26,99,267	29,17,401	7,54,54,989	52 6	26 5
Sept 1912	3,83,00,000	99,12,783	84,17,575	1,83,30,358	18,20,19,288	3,04,84,977	11,93,22,637	29,31,046	8,59,10,986	47 8	21 4
Dec 1912	3,83,00,000	72,00,188	1,26,15,845	1,98,16,034	16,95,91,087	3,11,01,505	12,58,53,394	28,78,126	6,78,74,096	51 7	29 1
									Average	52 0	28 5

BANK OF MADRAS

Last week in	Liabilities					Assets				Percentage of Public Deposits to Capital and Reserve	Percentage of Public Deposits to Cash and Currency Notes
	Capital and Reserve	Public Deposits (Liabilities to Government)			Other Liabilities	Securities	Advances, Loans, Credits, Bills discounted, &c	Sundries	Cash and Currency Notes		
		Head Office	Branches	Total							
	Rs	Rs	Rs	Rs	Rs	Rs		Rs	Rs		
March 1890	63,50,000	Not shown separately	Not shown separately	66,15,961	1,96,21,068	15,66,356	2,27,36,753	3,32,380	79,51,535	104.7	83.5
June 1890	63,50,000			49,01,467	2,00,15,119	36,70,072	1,89,03,116	3,39,740	83,53,660	77.7	58.3
Sept 1890	64,00,000			35,18,388	2,23,85,258	53,30,335	1,27,55,239	3,25,166	1,38,93,002	54.7	25.2
Dec 1890	64,00,000			47,91,096	2,24,29,665	45,86,873	1,31,32,057	3,17,315	1,55,84,515	75	30.8
March 1891	64,00,000			48,72,636	2,42,27,310	40,59,364	1,96,10,739	3,43,191	1,14,86,649	76.5	42.6
June 1891	64,00,000			53,63,764	2,86,93,815	56,65,315	1,69,53,267	3,39,974	1,74,99,022	84.3	30.9
Sept 1891	64,00,000			41,50,974	2,62,35,613	79,55,002	1,38,34,315	3,24,006	1,46,73,261	65.6	28.6
Dec 1891	64,00,000			46,17,568	2,53,36,372	60,64,893	1,68,64,310	3,41,510	1,30,83,227	71.9	35.1
March 1892	64,00,000			65,18,746	2,30,33,551	37,98,089	2,20,27,195	3,45,471	97,81,537	101.5	66.3
June 1892	64,00,000			57,00,638	2,69,00,499	65,18,661	1,73,08,152	3,47,563	1,48,26,761	89.1	38.5
Sept 1892	64,00,000			35,04,351	3,08,04,135	81,82,562	1,49,35,103	3,79,206	1,72,11,909	54.7	20.5
Dec 1892	64,00,000			41,32,135	2,91,71,611	68,77,156	1,91,95,288	3,37,201	1,32,94,102	64.1	30.8
									Average	76.7	40.9
March 1910	1,05,50,000	24,60,805	33,06,138	57,66,945	5,44,00,037	45,77,349	5,23,30,437	8,34,957	1,29,74,238	54.3	44.6
June 1910	1,05,50,000	27,90,736	33,85,216	61,75,953	6,60,78,421	85,70,404	4,80,48,981	10,96,420	2,50,88,568	58.5	24.7
Sept 1910	1,08,00,000	25,91,831	32,16,532	58,08,364	6,43,09,727	86,04,096	4,22,44,815	8,88,160	2,91,81,019	53.7	20.0
Dec 1910	1,08,00,000	39,75,844	32,98,196	72,74,040	5,74,73,465	85,44,716	4,76,86,662	8,64,146	1,84,51,979	67.6	39.5
March 1911	1,09,50,000	29,04,021	46,39,452	75,43,474	5,99,56,535	72,47,421	5,35,45,482	14,14,115	62,42,990	68.9	121.0
June 1911	1,09,50,000	39,97,583	37,72,743	77,70,326	6,41,53,131	85,61,555	5,03,79,880	8,86,203	2,30,45,818	71.0	33.9
Sept 1911	1,12,00,000	24,04,696	39,98,497	64,03,194	6,18,91,348	1,05,07,200	4,86,46,185	10,72,829	1,92,68,327	57.1	33.1
Dec 1911	1,12,00,000	26,83,045	32,66,425	59,49,471	6,34,16,335	1,04,52,366	5,29,21,786	6,02,710	1,65,88,942	53.5	35.5
March 1912	1,13,00,000	50,77,703	55,40,712	1,06,18,416	6,69,42,618	75,55,013	6,09,62,910	17,28,641	1,86,14,469	93.8	57.0
June 1912	1,43,00,000	38,07,821	36,98,652	75,06,474	7,20,97,019	1,07,69,593	5,93,09,883	6,67,136	2,31,56,880	52.4	32.4
Sept 1912	1,45,00,000	36,37,359	33,63,041	70,00,400	7,19,85,810	1,13,60,663	5,85,91,651	5,00,736	2,27,33,158	48.3	30.8
Dec 1912	1,45,00,000	44,71,777	31,00,795	75,72,573	7,51,38,493	1,13,31,866	6,51,41,603	10,68,566	1,96,66,031	52.4	38.6
									Average	60.2	42.6

BANK OF BOMBAY.

Last week in	Liabilities					Assets				Percentage of Public Deposits to Capital and Reserve	Percentage of Public Deposits to Cash and Currency Notes
	Capital and Reserve	Public Deposits (Liabilities to Government)			Other Liabilities	Securities	Advances, Loans, Credits, Bills discounted, &c	Sundries	Cash and Currency Notes		
		Head Office	Branches	Total							
	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs		
March 1890 -	1,30,00,000	Not shown separately	Not shown separately	1,29,71,319	2,62,54,610	50,33,338	3,83,17,389	3,98,472	84,76,730	99 8	153 0
June 1890	1,30,00,000			71,64,819	3,04,82 056	71,56,737	3,11,69,432	8,95,305	1,14,25,401	55 1	62 7
Sept 1890 -	1,33,00,000			90,23,630	4,59,45,721	82,58,028	1,73,17,733	1,14,155	4,22,79,135	67 9	21 3
Dec 1890 -	1,33,00,000			87,13,756	6,29,75,909	78,52,543	1,79,30,185	4,24,443	5,87,80,494	65 5	14 8
March 1891 -	1,33,50,000			1,06,13,591	3,95,73,595	63,63,617	3,19,40,311	8,16,121	2,44,17,137	79 5	43 5
June 1891 -	1,33,50,000			92 25,080	4,65,21,002	1,11,55,442	2,82,55,349	7,27,474	2,89,57,817	69 1	31 9
Sept 1891 -	1,34,00,000			98,65,873	5,82,83,492	1,24,85,159	2,35,52,416	4,12,506	4,50,99,284	73 6	21 9
Dec 1891 -	1,34,00,000			74,71,586	5,36,04,336	1,30,10,148	2,78,98,711	4,13,577	3,31,53,486	55 8	22 6
March 1892 -	1,34,50,000			1,25,91,465	3,47,19,133	1,21,05,405	3,32,07,551	4,14,872	1,50,32,770	93 6	84 0
June 1892 -	1,34,50,000			1,01,00,476	4,11,94,516	1,14,10,109	3,13,53,978	7,07,042	2,12,73,863	75 1	47 4
Sept 1892 -	1,36,50,000			83,89,167	5,19,11,393	1,20,68,680	2,23,16,342	4,07,689	3,91,57,849	61 5	21 5
Dec 1892	1,36,50,000			87,47,389	4,86,96,149	1,11,84,930	3,44,96,453	8,41,034	2,45,71,121	64 1	35 4
									Average -	71 7	46 7
March 1910 -	203,00,000	61,46,061	1,24,88,067	1,86,34,128	9,51,85,436	1,54,86,507	8,48,26,159	7,62,746	3,30,44,152	91 6	56 3
June 1910	203,00 000	50,74,651	71,81,283	1,22,55,934	10,38,63,727	1,65,03,863	7,40 81,755	18,61,110	4,39,72,933	60 9	28 0
Sept 1910 -	205,00,000	47,85,354	64,38,316	1,12,23,670	13,16,84,334	2,05,60,242	7,69,72,161	9,29,460	6,49,46,141	54 6	17 5
Dec 1910 -	205,00,000	69,89,148	82,59,559	1,52,48,707	10,82,47,946	1,49,16,850	8,33,34,072	21,29,636	4,36,16,095	74 2	34 8
March 1911 -	205,00,000	57,43,086	1,16,91,015	1,74,34,101	10,29,40,161	1,41,55,372	8,72,60,354	20,41,565	3,74,16,971	84 9	46 5
June 1911 -	205,00,000	58,17,700	74,83,879	1,33,01,579	10,89,25,332	1,56,72,718	7,81,90,851	26,31,986	4,62,31,356	64 9	28 8
Sept 1911 -	206,00,000	63,40,886	62,16,549	1,25,57,435	12,44,31,876	2,30,61,099	6,52,60,614	14,35,707	6,78,31,891	61 1	18 5
Dec 1911 -	206,00,000	46,24,982	61,64,312	1,07,89,294	11,32,12,272	2,08,74,533	7,54,52,281	19,65,405	4,63,09,347	52 4	23 3
March 1912	206,00,000	70,69,414	1,00,69,083	1,71,38,497	11,04,58,190	2,31,04,564	7,61,30,268	12,26,634	4,77,35,221	83 0	35 8
June 1912 -	206,00,000	83,70 694	71,90,040	1,55,60,734	10,31,15,450	2,04,79,997	6,44,08,149	29,24,594	5,14,63,444	75 7	30 1
Sept 1912 -	206,00,000	67,05,630	72,68,566	1,39,74,196	11,42,00,231	2,44,78,531	7,19,82 310	15,63,013	5,07,50,573	67 9	27 4
Dec 1912	206,00,000	44,87,113	59,97,176	1,04,84,289	11,47,52,062	2,10,94,639	8,96,94,187	15,41,958	3,35,05,567	51 0	31 3
									Average -	68 5	31 5

STATEMENT E

Net Revenue and Expenditure of the Government of India (excluding Provincial Adjustments) 1909–10 to 1913–14

—	1909–10 Budget	1909–10 Actual	1909–10 Better (+) or worse (−)	1910–11 Budget	1910–11 Actual	1910–11 Better (+) or worse (−)	1911–12 Budget	1911–12 Actual	1911–12 Better (+) or worse (−)	1912–13 Budget	1912–13 Revised Estimate	1912–13 Better (+) or worse (−)	Total improvement or deterioration in four years	1913–14 Budget
NET REVENUE —	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Land Revenue, Forests, and Tributes	22,343,500	22,673,220	+329,720	22,563,500	22,343,843	− *219,657*	22,950,600	22,339,617	− *610,983*	22,893,800	23,035,400	+ 141,600	−*359,320*	23,049,800
Opium	3,314,300	4,195,614	+881,314	3,550,100	6,271,531	+2,721,431	3,093,300	5,228,212	+ 2,134,912	2,930,700	4,503,500	+1,572,800	+7,310,457	306,000
Taxation	21,676,600	21,382,953	−*293,647*	23,120,900	23,689,815	+ 568,915	23,594,900	24,350,768	+ 755,868	24,745,200	25,815,600	+1,070,400	+2,101,566	25,654,200
Commercial Undertakings (including Railways)	1,903,700	1,341,287	−*562,413*	941,600	2,668,210	+1,726,610	2,398,200	4,712,239	+ 2,314,039	2,768,400	6,831,800	+4,063,400	+7,541,666	5,656,000
Mint and Exchange	41,700	26,676	−*15,024*	50,800	173,825	+123,025	104,700	356,290	+ 251,590	104,300	499,000	+394,700	+754,291	170,200
Total	49,279,800	49,619,750	+339,950	50,226,900	55,147,284	+4,920,384	52,141,700	56,987,126	+ 4,845,426	53,442,400	60,685,300	+ 7,242,900	+17,348,660	54,836,200
NET EXPENDITURE —														
Debt Services	978,300	930,702	−*47,598*	1,027,600	703,463	− *324,137*	948,100	588,994	− *359,106*	817,900	344,000	− *473,900*	−*1,204,711*	22,700
Military Services	19,653,000	19,112,323	−*540,677*	19,706,500	19,265,042	− *441,458*	19,575,200	19,558,580	− *16,620*	19,094,500	19,635,100	+540,900	− *157,855*	19,616,800
Collection of Revenue, Civil Services and Famine Relief, and Insurance	28,618,100	28,076,048	−*542,052*	29,739,000	29,281,290	− *457,710*	32,515,200	31,930,134	− *585,066*	33,609,400	33,238,300	−*371,100*	−*1,955,928*	36,753,000
Total	49,249,100	48,119,073	−*1,130,327*	50,473,100	49,249,795	− *1,223,305*	53,038,500	52,077,708	− *960,792*	53,521,800	53,217,700	− *304,100*	−*3,618,524*	56,422,500
Excess (+) or deficit (−) of Revenue	+30,400	+1,500,677	+1,470,277	− *246,200*	+ 5,897,489	+ 6,143,689	− *896,800*	+ 4,909,418	+ 5,806,218	− *79,400*	+ 7,467,600	+ 7,547,000	+20,967,184	−*1,586,300*

STATEMENT F

Sales of Council Bills and Telegraphic Transfers 1893–94 to 1912–13

Year	Budget			Actual				Excess (+) or Deficiency (–) of Actuals as compared with Budget	Amount paid for Bills on the Secretary of State drawn and sold by the Government of India for support of Exchange
	For Paper Currency Reserve	For General Purposes	Total	Appropriated to Gold Standard Reserve	Appropriated to Paper Currency Reserve for Purchase of Securities or in Gold	Used for General Purposes, including Purchase of Silver	Total		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	£	£	£	£	£	£	£	£	£
1893–94	—	18 700,000	18 700,000	—	—	9,530,235	9,530,235	–9,169,765	—
1894–95	—	17,000 000	17,000,000	—	—	16,905,102	16,905,102	–94,898	—
1895–96	—	17,000 000	17 000,000	—	—	17,664,492	17,664,492	+664,492	—
1896–97	—	16 500,000	16,500 000	—	—	15,52,6547	15,526,547	–973,453	—
1897–98	—	13 000 000	13,000,000	—	—	*8,836,688	8,836 688	–4,163 312	—
1898–99	—	16,000 000	16 000,000	—	—	18 692 377	18 692 377	+2,692,377	—
1899–1900	—	17 000 000	17 000,000	—	1 500,000	17,567 022	19,067,022	+2,067,022	—
1900–01	—	16,440 000	16 440,000	—	100 000	13 200,277	13,300,277	–3,139,723	—
1901–02	—	16 500 000	16,500,000	1,939,093	–	16,599,978	18,539,071	+2,039,071	—
1902–03	—	16 500,000	16,500,000	263,000	—	18,236,946	18,499,946	+1,999 946	—
1903–04	—	17 000 000	17 000 000	2,200 000	—	21,659 303	23,859 303	+6,859,303	—
1904–05	—	16 500 000	16 500 000	700 396	—	23,725 162	24 425,558	+7,925,558	—
1905–06	1,333 000	16 500 000	17 833,000	3,543 000	1 333,333	27,290,640	32,166,973	+14,333,973	—
1906–07	—	17 800 000	17,800 000	—	2,775,000	30,382,196	33,157,196	+15,357 196	—
1907–08	—	18 100 000	18 100 000	526 324	925 000	14,780 738	16 232,062	–1 867 938	—
1908–09	—	18,500 000	18 500 000	1 491 487	—	12,423,939	13 915 426	–4,584,574	8,058,000
1909–10	—	16 200 000	16 200 000	8 090,000	1 000 000	18 006,586	27 096,586	+10,896 586	156,000
1910–11	—	15 500 000	15 500 000	600,000	2 545 000	23 638 303	26,783 303	+11,283,303	—
1911–12	1 333 300	15 825,000	17,158 300	—	1,988 333	25,070,217	27 058 550	+9,900,250	—
1912–13	—	15 500 000	15,500,000	—	—	25 759,706	25,759 706	+10 259 706	—
	2 666,300	332 065 000	334 731 300	19 353,300	12,166 666	375 496 454	407,016 420	+72 285,120	8,214,000

* 9 506 077*l* less 669,389*l* for purchase by Secretary of State of Bills on Indian banks

The figures in column 6 differ from those in the General Purposes columns of the Appendix to the Memorandum on India Office Balances for the following reasons —

1902–03 includes 285,000*l* for the purchase of silver
1903–04 includes 4,055,327*l* for the purchase of silver
1904–05 includes 4,540,378*l* for the purchase of silver
1905–06 includes 8,118,043*l* for the purchase of silver
1906–07 includes 10,720,929*l* for the purchase of silver
1907–08 includes 1,191,255*l* for the purchase of silver
1909–10 includes 156,000*l* for Bills sold in India

STATEMENT G

Summary of India Office Transactions, 1909–10 to 1913–14

—	1909–10 Budget	1909–10 Actual	1909–10 Difference	1910–11 Budget	1910–11 Actual	1910–11 Difference	1911–12 Budget	1911–12 Actual	1911–12 Difference	1912–13 Budget	1912–13 Revised Estimate	1912–13 Difference	1913–14 Budget
	£	£	£	£	£	£	£	£	£	£	£	£	£
Opening Balance	7,697,989	7,983,898	+285,909	12,739,297	12,799,090	+59,793	16,055,518	16,696,991	+641,473	18,320,649	18,390,000	+69,351	8,372,900
Receipts —													
Bills and Transfers	16,200,000	18,006,586	+1,806,586	15,500,000	23,638,303	+8,138,303	15,825,000	25,070,216	+9,245,216	15,500,000	25,660,000	+10,160,000	21,650,000
Gold from India	—	—	—	—	—	—	—	—	—	—	327,900	+327,900	450,000
Loans issued in advance for the requirements of the following year	—	6,370,000	+6,370,000	—	2,210,000	+2,210,000	—	—	—	—	—	—	—
Other Loans	5,223,700	5,158,999	−64,701	5,137,100	5,309,098	−128,002	4,495,000	2,855,103	−1,639,897	4,810,000	3,495,000	−1,315,000	3,000,000
Total Receipts	21,423,700	29,535,585	+8,111,885	20,937,100	31,157,401	+10,220,301	20,320,000	27,925,319	+7,605,319	20,310,000	29,482,900	+9,172,900	25,100,000
Disbursements —													
Capital Outlay on Railways and Irrigation Works	6,832,700	5,747,714	−1,084,986	6,239,700	5,187,962	−1,051,738	6,041,500	5,082,747	−958,753	6,527,200	7,077,300	+550,100	8,813,200
Discharge of Debt	179,400	209,400	+30,000	3,067,900	4,067,900	+1,000,000	2,776,200	2,816,200	+40,000	6,477,600	6,477,600	—	1,781,200
Other Payments (net)	18,780,900	18,763,279	−17,621	19,102,900	18,003,638	−1,099,262	18,819,600	18,333,350	−486,250	18,904,000	25,945,100	+7,041,100	18,786,100
Total Disbursements	25,793,000	24,720,393	−1,072,607	28,410,500	27,259,500	−1,151,000	27,637,300	26,232,297	−1,405,003	31,908,800	39,500,000	+7,591,200	29,380,500
Increase or Decrease of Balance	−4,369,300	+4,815,192	+9,184,492	−7,473,100	+3,897,901	+11,371,301	−7,317,300	+1,693,022	+9,010,322	−11,598,800	−10,017,100	+1,581,700	−4,280,500
Closing Balance	3,328,689	12,799,090	+9,470,401	5,265,897	16,696,991	+11,431,094	8,738,218	18,390,013	+9,651,795	6,721,849	8,372,900	+1,651,051	4,092,400

STATEMENT H

(1)—Imports, Exports, and Absorption of British Gold Coin, from 1901-02 to 1912-13

Years	Imports: Tendered to Government (1)	Imports: Not so Tendered (2)	Imports: Total (3)	Exports (4)	Net Imports (5)	Net issues from (+) or Net Receipts into (−) Government Reserves and Treasuries (Columns (7) and (8) of Statement H (2) below) (6)	Net Absorption: After passing through Government Reserves and Treasuries (7) = (1) − (4) ± (6)	Net Absorption: Direct Absorption (8) = (2)	Net Absorption: Total (9) = (5) ± (6)
	£	£	£	£	£	£	£	£	£
1901-02 - -			3,517,000	1,762,000	1,755,000	−778,000			977,000
1902-03 - -			5,812,000	766,000	5,046,000	−2,891,000			2,152,000
1903-04 - -			8,656,000	4,358,000	4,298,000	−1,015,000			3,283,000
1904-05 - -			8,690,000	5,718,000	2,972,000	−29,000			2,943,000
1905-06 - -	2,964,000	1,030,000	3,994,000	7,106,000	−3,112,000	+6,909,000	2,767,000	1,030,000	3,797,000
1906-07 -	4,165,000	1,196,000	5,361,000	410,000	4,951,000	+184,000	3,939,000	1,196,000	5,135,000
1907-08 - -	5,261,000	1,185,000	6,446,000	12,000	6,434,000	+951,000	6,200,000	1,185,000	7,385,000
1908-09 - -	75,000	1,004,000	1,079,000	454,000	625,000	+2,811,000	2,428,000	1,004,000	3,432,000
1909-10 - -	7,139,000	2,102,000	9,241,000	28,000	9,213,000	−6,339,000	772,000	2,102,000	2,874,000
1910-11 -	7,626,000	914,000	8,540,000	378,000	8,162,000	−59,000	7,189,000	914,000	8,103,000
1911-12 - -	17,053,000	1,289,000	18,342,000	114,000	18,228,000	−9,344,000	7,595,000	1,289,000	8,884,000
1912-13 - -	16,939,000	856,000	17,795,000	2,559,000	15,236,000	−4,135,000	10,245,000	856,000	11,101,000
Total -			97,473,000	23,665,000	73,808,000				60,066,000

STATEMENT H.—*continued*

(2)—Gold held in Reserves and Treasuries of the Government of India from 1901-02 to 1912-13

Year	In Paper Currency Reserve	In Gold Standard Reserve	In Treasuries	Total	Form in which Gold shown in column (4) was held		Net Issues or Net Receipts of British Gold Coin during year		Net Issues or Net Receipts of other Gold during year	
					British Gold Coin	Bullion and Foreign Gold Coin	Net Issues	Net Receipts	Net Issues	Net Receipts
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	£	£	£	£	£	£	£	£	£	£
1901-02	7,019,000	—	87,000	7,106,000	7,003,000	103,000	—	778,000	787,000	—
1902-03	9,859,000	—	119,000	9,978,000	9,897,000	81,000	—	2,894,000	22,000	—
1903-04	10,783,000	—	134,000	10,917,000	10,912,000	5,000	—	1,015,000	76,000	—
1904-05	10,739,000	—	210,000	10,949,000	10,941,000	8,000	—	29,000	—	3,000
1905-06	3,826,000	—	219,000	4,045,000	4,032,000	13,000	6,909,000	—	—	5,000
1906-07	3,640,000	22,000	211,000	3,873,000	3,848,000	25,000	184,000	—	—	12,000
1907-08	2,713,000	—	209,000	2,922,000	2,897,000	25,000	951,000	—	—	—
1908-09	23,000	—	63,000	86,000	86,000	—	2,811,000	—	25,000	—
1909-10	6,202,000	—	223,000	6,425,000	6,425,000	—	—	6,339,000	—	—
1910-11	6,186,000	—	298,000	6,484,000	6,484,000	—	—	59,000	—	—
1911-12	15,554,000	—	274,000	15,828,000	15,828,000	—	—	9,344,000	—	—
1912-13	19,583,000	—	380,000	19,963,000	19,963,000	—	—	4,135,000	—	—

APPENDIX III

MEMORANDUM AND STATEMENTS ON THE GOLD STANDARD RESERVE, submitted by Mr L ABRAHAMS, C B, Assistant Under Secretary of State for India

I

General.

1 The Gold Standard Reserve was established in accordance with the following recommendation of the Indian Currency Committee of 1898–99 —

"We also recommend that any profit on the coinage of Rupees should not be credited to the revenue or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances"

The form, location and amount of the reserve from 31st March 1901 to 31st March 1913 are shown in Statement A (page 97), and further particulars regarding the constitution of the portion held in England on the 31st March 1913, and the net profit realised on investments up to that date, are given in Statement B (page 98)

The chief questions for consideration regarding the Reserve appear to be those relating to —

(1) The purposes for which it should be used
(2) The form in which it should be held
(3) Its location, that is, whether it should be held in England or India
(4) Its amount, that is, whether it should be allowed to accumulate indefinitely and, if not, what limit should be placed on its accumulation

II.

Purposes for which the Reserve should be used

2 The Report of the Committee of 1898–99 affords a general indication of their views as to the purpose for which they considered, or would have considered if they had specially dealt with the point, that the Reserve should be used In paragraph 59 they say —

"We regard it as the principal use of a Gold Reserve that it should be freely available for foreign remittances whenever the exchange falls below specie point [that is, presumably, gold exporting point], and the Government of India should make its gold available for this purpose when necessary, under such conditions as the circumstances of the time may render desirable For example, the Government of India might, if the exchange showed a tendency to fall below specie point, remit to England a portion of the gold which it may hold, a corresponding reduction being made in the drawings of the Secretary of State"

3 This remark indicates in very general terms the Committee's view of the purposes to be served by any reserve held for the support of exchange But it was not made with special reference to the Gold Standard Reserve, and I can say from direct personal knowledge that the Committee did not consider what would be the best procedure for enabling the Gold Standard Reserve to serve the purpose indicated in general terms in the passage quoted If any opinion had been expressed on that point in 1899, it would possibly have been of little value in 1913

4 As a matter of fact there is, I believe, now a general consensus of opinion that the Reserve, so far as held to provide against a fall in

Exchange, should be used for two purposes, namely, to supplement temporarily the resources in London of the Secretary of State at times when he is unable to sell Council Bills except below specie exporting point, and to serve as a fund for enabling an adverse balance of trade to be liquidated without a fall in exchange. The only occasion on which it has been necessary to use the Reserve for these purposes was in 1907–08, when it was used to the extent of 933,749*l* for the former purpose and 8,058,000*l* for the latter, the procedure in the latter case being that Bills drawn by the Government of India on the Secretary of State and payable in London were offered for sale by the Government of India in each week from 26th March to 10th September 1908, at the fixed rate of 1*s* 3 29/32*d* per rupee. Particulars of the sales will be found in Statement D (page 103).

5. A portion of the Reserve, known as the Indian Branch, is held in India, usually in rupees (see Statement A, page 97) and serves a different purpose from the portion held for the support of Exchange. The history of the Indian Branch and the reason for its existence are discussed in Section VI below.

III.

The form in which the Reserve should be held

6. It is clear that so far as the Reserve is used to provide against a fall in Exchange it must be held in a sterling form, that is, either in gold, in securities that may easily be sold for sterling, in money lent at short notice and repayable in sterling or in bank deposits repayable in sterling. From time to time all these methods have been used. At present, as will be seen from Statement A (page 97), the portion of the Reserve held in England for the support of exchange is partly in securities, partly in money placed at short notice, and partly in gold. I believe that it is wise to hold the Reserve in these forms, though I think that some changes in detail might advantageously be made in the distribution. The advantage of holding a portion of the Reserve in securities and on loan is that even allowing for the depreciation of securities the profit is very large. It will be seen from Statement B (page 98) that up to the 31st March 1913 the total interest receipts amounted to 3,421,894*l* and the loss on the sale of securities and on the depreciation of those still held was 1,121,269*l*, so that the net profit was 2,300,625*l*. It will, of course, be generally agreed that the profit would be bought too dear if the securities could not be readily realised when required. Statement B shows that the danger in this respect is not serious. Of the 15,915,669*l*, shown as the market value of the securities held on the 31st March 1913, 10,989,504*l* was in the form of securities due for early redemption at a fixed date, while 4,956,165*l* consisted of securities which the borrowing Government is either not under obligation to repay or is to repay only at a comparatively distant date and which, therefore, could be realised only by sale in the market or to some other Government department such as the Commissioners for the Reduction of the National Debt. I am of opinion that the amount of securities of this latter class should be reduced as occasion offers, though in view of the large amount of the other resources at the disposal of the Secretary of State for the support of exchange I think that this change might be made very gradually.* In this connection I may draw attention to Statement C, showing that the last purchase of securities not due for early redemption was in 1909–10 when on 25th May 1909, 500,000*l* Consols were bought (see page 100).

* Since 31st March 1913 £666,015 (nominal) Consols have been sold, at an average price slightly exceeding 75 for 500,000*l*, and the proceeds have been invested in short dated securities.

7. The existing orders relating to the form in which the portion of the Gold Standard Reserve held in London is to be kept, are contained in the Secretary of State's Despatch to the Government of India No. 76 (Financial), dated the 28th June 1912, which is printed in the collection of papers that I am handing in (see page 201). It will be seen that, from the date of that Despatch, profits on coinage and interest on investments which become available for the English portion of the Reserve are to be held in gold until the amount so held reaches 5,000,000*l*. I am of opinion that if, when this amount has been reached, it is possible to find suitable short-dated securities, such as Treasury

Bills and Exchequer bonds, in which to invest future receipts (including the proceeds of any permanent securities that may be realised), it will be an excess of caution to hold in gold more than 5,000,000*l*, more especially if, as I hope will be the case, the present practice of holding a portion of the Paper Currency Reserve in gold in England is continued. If, as is possible, the supply of short-dated securities is so reduced that they cannot be obtained in sufficient amount for the purposes of the Reserve, then I think that it will be better to increase the holding of gold and of loans against security than the holding of Consols or other permanent stocks.

IV

Location of the Reserve

8. It is stated in Section II above that the two purposes for which the Reserve, so far as held for the support of exchange, should be used are the payment of a portion of the Secretary of State's disbursements, and the liquidation of the trade balances due by India to other countries. Payments of the former class must obviously be made in London, and payments of the latter class are regularly made in, or through, London. It would, therefore, seem that there is *primâ facie* an overwhelming balance of advantage in holding in London the part of the reserve now under consideration. This course has been followed since the reserve was established.

9. It should be mentioned, however, that a Resolution proposed by Sir V. D. Thackersey in the Legislative Council in Calcutta on 22nd March 1912, in favour of holding a substantial part of the Reserve in gold in India, received considerable support. It seems desirable to mention some of the considerations against this change.

A. It is obvious that such portion of the Reserve as might be held in a sterling form in India, could scarcely be held either in securities or in loans or deposits repayable in sterling. It would therefore be held in gold. Since India is to a very small extent a gold producing country, the greater part, if not the whole, of any gold held in India in the Reserve would be imported, and would, in all probability, reach India either from England or from Australia. There would obviously be some disadvantage in an arrangement necessitating the expense of sending from England to India gold which is intended *ex hypothesi* to be used only for the purpose of being re-exported from India to England. The same consideration would apply to gold imported from Australia, because the cost of freight and insurance on gold from Australia to India is, I believe, precisely the same as from Australia to England and from India to England, so that, if gold intended for the Reserve were sent in the first instance from Australia to India, retained in India for a time, and then sent to England, the freight and insurance charges would be paid twice instead of once.

B. The holding in gold in India of any considerable part of what is now held in securities in England would obviously cause a serious loss of interest.

C. When the moment arrived for using in London gold held in India, a delay of about three weeks would occur while it was being shipped to London. In critical times this might be a considerable disadvantage.

D. Far more important than the considerations mentioned, is the uncertainty as to the extent to which gold held in the Reserve in India would really be used for the support of exchange. Presumably such gold, so far as not shipped to the Secretary of State to be used towards meeting the general disbursements of the India Office, would be issued to the public in exchange for rupees in the hope that it would be exported to liquidate the balance of trade indebtedness. It may be said with confidence that, in the absence of special regulations (a matter on which something is said on the next page), much of the amount issued would certainly be used for quite other purposes. The evidence in support of this statement is partly of a general nature, and partly derived from the actual course of events in 1907-08,

* The amounts shown in Column 6 of Statement A on page 97 represent profits on coinage temporarily held in gold in India pending remittance to England for investment

the one period since the establishment of the reserve when special measures for the support of exchange has been necessary.*

(*a*) The evidence of a general nature is as follows. Since the practice of issuing gold to the public in exchange for Rupees was instituted, the rate at which issues have been made has been 1*l* = Rs. 15, or 1*s*. 4*d*. per Rupee, and it is clear for reasons which I can give, if necessary, that, if sovereigns are to be issued at a time of an unfavourable trade balance for the purpose of preventing exchange from falling below gold exporting point, the rate at which they are to be issued must not be more unfavourable to the recipient than this established rate. At such a time the price in India of sovereigns other than those issued from Government reserves would be appreciably in excess of Rs. 15 each, the price corresponding to an exchange rate of 1*s*. $3\frac{3}{32}$*d*. per Rupee being Rs. 15, annas 1½, per sovereign. It would, therefore, be profitable to anyone in India who desired sovereigns for use in India, to get them from Government treasuries rather than from any other source, and it may be taken as certain that, in the absence of special restrictive regulations, the whole internal demand would be met by drawing on Government treasuries and reserves, so that, up to the limit of that demand, sovereigns issued from the Gold Standard Reserve would pass into use in India for circulation, melting, or hoarding, instead of being exported to pay foreign obligations.

(*b*) The evidence derived from the course of events in 1907–08 will be found in Statement D in the columns headed "Diminution of Government Stock of Gold in India" and "Exports of Sovereigns and other British Gold Coins from India on private account" (page 103). It will be seen that the sovereigns held in Government treasuries and reserves in India decreased between September 1907 and December 1908 by 4,391,000*l*. of which 215,000*l*. represented light coin sent by the Government of India to the Secretary of State, and the remainder (4,179,000*l*.) issues to the public in India. The export on private account during the same period amounted to 249,912*l*., that is to say, 6 per cent. of the total amount issued by the Government to the public in India during this adverse period was exported and so served the primary purpose for which, in the opinion of the Fowler Committee, reserves should be held, while 94 per cent. was used for other purposes.

10. It might perhaps be possible, if the sterling part of the Gold Standard Reserve were held in gold in India, to introduce restrictive regulations for the purpose of securing that any sovereigns issued therefrom at a time of weak exchange should be exported for the purpose of meeting trade indebtedness and for no other purpose. The framing and enforcing of such regulations would possibly be a matter of considerable difficulty. There would always be a risk of evasion, and I think that such a risk should not be undertaken in view of the enormous sacrifices that India has made, and is making, in order to build up its reserve for the maintenance of exchange. I believe that the extent of these sacrifices is sometimes very imperfectly realised, and it seems worth while to give the following brief particulars to illustrate their magnitude. Under existing orders, as shown below, the sterling part of the Gold Standard Reserve is to accumulate to not less than 25,000,000*l*. This represents money which, if not put by for the maintenance of exchange, would presumably be used for capital expenditure on railways or irrigation works. What could be done for such a sum is shown by the fact that 25,000,000*l*. represents approximately the total cost up to the 31st March 1912 of the Bengal-Nagpur Railway, which produced a net revenue in 1911–12 of 1,164,000*l*., is about 2,600 miles long, and has been, I believe, of incalculable value in increasing the prosperity and the security against famine of the vast area that it serves. Expressed in terms of irrigation works, 25,000,000*l*. represents 70 per cent. of the capital cost of the whole of the Major Irrigation Works in India up to the 31st March 1912, which produced a revenue in 1911–12 of more than 2,500,000*l*., and of the economic and productive value of which it is scarcely necessary to say anything. The appropriation for the maintenance of exchange, of a sum representing so vast a potentiality of financial, economic, and protective

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* I omit as insignificant the sale in September 1909 of Bills on London for 156,000*l*. under the conditions mentioned at the end of Section II.

advantage to India is probably not excessive, but it is clear that, when so great a fund is being set aside in order to secure a particular result, it would be unwise to incur the risk of any substantial portion of its being used for other purposes, such as to enable hoarders or makers of gold ornaments to buy gold at a few pence less per ounce than they would have to pay if they could not get it from the Gold Standard Reserve

V.

Amount of the Reserve

11 The question of the amount up to which the London Branch of the Reserve should be allowed to accumulate has been discussed at various times in the last nine years Some of the opinions expressed by responsible authorities are mentioned in Lord Morley's Financial Despatch No 82 of 2nd July 1909, which is included in the collection of papers that I am handing in (*see* page 175) The present position is, that the whole profits on coinage and interest on investments have been added to the London Branch of the Reserve with the exception of

(1) about 1,000,000*l* used for capital expenditure on railways in 1907-08, in accordance with the recommendation made in that year by a Committee on railway administration and finance, whose interim report is included in the collection of papers that I hand in, and
(2) the amount held in rupees in India under the arrangement described in Section VI below

12 In his Despatch No 76 of 28th June 1912 (page 201), the Secretary of State decided that future profits on coinage and interest on investments becoming available for addition to the London Branch of the Reserve shall be added thereto in full, and no part used for any other purpose, such as capital expenditure on railways, until the London Branch shall have reached 25,000,000*l*

13 It would be possible to collect arguments from various sources regarding the sufficiency of the figure mentioned, but I think that the best guidance can be obtained from the experience of 1907-08 The exceptional severity of the adverse conditions of that period is set forth in Lord Morley's Despatch No 82 of 2nd July 1909 and its enclosure (page 201), which summarises the figures relating to the foreign trade of India from 1st November to 31st October in each year from 1896-97 to 1907-08, and shows that, although the period included two severe famines, the only year in which there was an adverse balance of trade was 1907-08 The statistics of this period thus illustrate the effects of as severe a period of adversity as it is reasonable to anticipate, and the best method of deciding the amount up to which the sterling part of the Gold Standard Reserve should be allowed to accumulate before a portion of future receipts from profits of coinage is used for other purposes, such as capital expenditure on railways and irrigation works, seems to be—

(1) To calculate the exceptional demands made in 1907-08 on the resources available for the support of exchange
(2) To base the decision as to the further accumulation of the Reserve on the view that it, together with the other resources available for the support of exchange, should exceed by a liberal margin the amount of the exceptional demands calculated under (1)

In making a calculation of the kind suggested in (1) it will be convenient to deal separately with transactions in England and India respectively

14 As regards transactions in England I submit in Statement E (page 104) particulars of all cash receipts and disbursements of the India Office for each month from 1st September 1907 (which is certainly the earliest date at which the adverse period can be said to have begun, since in the previous month Council Bills had been sold for a large amount and the stock of gold held by the Government of India had been increasing) to the 31st December 1908, which may be taken as the end of the adverse period, since from that time Council Bills were again sold steadily, and no further measures were taken for the support of exchange

the one period since the establishment of the reserve when special measures for the support of exchange has been necessary *?

(*a*) The evidence of a general nature is as follows Since the practice of issuing gold to the public in exchange for Rupees was instituted, the rate at which issues have been made has been 1*l* = Rs 15, or 1s 4*d* per Rupee, and it is clear for reasons which I can give, if necessary, that, if sovereigns are to be issued at a time of an unfavourable trade balance for the purpose of preventing exchange from falling below gold exporting point, the rate at which they are to be issued must not be more unfavourable to the recipient than this established rate At such a time the price in India of sovereigns other than those issued from Government reserves would be appreciably in excess of Rs 15 each, the price corresponding to an exchange rate of 1s 3 29/32*d* per Rupee being Rs 15, annas 1½, per sovereign It would, therefore, be profitable to anyone in India who desired sovereigns for use in India, to get them from Government treasuries rather than from any other source, and it may be taken as certain that, in the absence of special restrictive regulations, the whole internal demand would be met by drawing on Government treasuries and reserves, so that, up to the limit of that demand, sovereigns issued from the Gold Standard Reserve would pass into use in India for circulation, melting, or hoarding, instead of being exported to pay foreign obligations

(*b*) The evidence derived from the course of events in 1907–08 will be found in Statement D in the columns headed "Diminution of Government Stock of Gold in India" and "Exports of Sovereigns and other British Gold Coins from India on private account" (page 103) It will be seen that the sovereigns held in Government treasuries and reserves in India decreased between September 1907 and December 1908 by 4,391,000*l* of which 215,000*l* represented light coin sent by the Government of India to the Secretary of State, and the remainder (4,179,000*l*) issues to the public in India The export on private account during the same period amounted to 219,912*l* that is to say, 6 per cent of the total amount issued by the Government to the public in India during this adverse period was exported and so served the primary purpose for which, in the opinion of the Fowler Committee, reserves should be held, while 94 per cent was used for other purposes

10 It might perhaps be possible, if the sterling part of the Gold Standard Reserve were held in gold in India, to introduce restrictive regulations for the purpose of securing that any sovereigns issued therefrom at a time of weak exchange should be exported for the purpose of meeting trade indebtedness and for no other purpose The framing and enforcing of such regulations would possibly be a matter of considerable difficulty There would always be a risk of evasion, and I think that such a risk should not be undertaken in view of the enormous sacrifices that India has made, and is making, in order to build up its reserve for the maintenance of exchange I believe that the extent of these sacrifices is sometimes very imperfectly realised, and it seems worth while to give the following brief particulars to illustrate their magnitude Under existing orders, as shown below, the sterling part of the Gold Standard Reserve is to accumulate to not less than 25,000,000*l* This represents money which, if not put by for the maintenance of exchange, would presumably be used for capital expenditure on railways or irrigation works What could be done for such a sum is shown by the fact that 25,000,000*l* represents approximately the total cost up to the 31st March 1912 of the Bengal-Nagpur Railway, which produced a net revenue in 1911–12 of 1,164,000*l*, is about 2,600 miles long, and has been, I believe, of incalculable value in increasing the prosperity and the security against famine of the vast area that it serves Expressed in terms of irrigation works, 25,000,000*l* represents 70 per cent of the capital cost of the whole of the Major Irrigation Works in India up to the 31st March 1912, which produced a revenue in 1911–12 of more than 2,500,000*l*, and of the economic and productive value of which it is scarcely necessary to say anything The appropriation for the maintenance of exchange, of a sum representing so vast a potentiality of financial, economic, and protective

* I omit as insignificant the sale in September 1909 of Bills on London for 156,000*l* under the conditions mentioned at the end of Section II

advantage to India is probably not excessive, but it is clear that, when so great a fund is being set aside in order to secure a particular result, it would be unwise to incur the risk of any substantial portion of its being used for other purposes, such as to enable hoarders or makers of gold ornaments to buy gold at a few pence less per ounce than they would have to pay if they could not get it from the Gold Standard Reserve

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14 As regards transactions in England I submit in Statement E (page 104) particulars of all cash receipts and disbursements of the India Office for each month from 1st September 1907 (which is certainly the earliest date at which the adverse period can be said to have begun, since in the previous month Council Bills had been sold for a large amount and the stock of gold held by the Government of India had been increasing) to the 31st December 1908, which may be taken as the end of the adverse period, since from that time Council Bills were again sold steadily, and no further measures were taken for the support of exchange

15 The significance of the rather copious particulars in Statement E is brought out in the following summary :—

INDIA OFFICE CASH TRANSACTIONS, 1st September 1907 to 31st December 1908 (Summary of Statement E, page 104)

GOLD STANDARD RESERVE

		£		£
Opening Cash balance (apart from securities) - - -		38,406	Invested -	2,823,563
Cash Receipts	£		Payments to meet bills drawn by the Government of India on Secretary of State, and sold to bankers, merchants, &c., in India -	8,058,000
Dividends and remittances from India -	954,855		Temporarily transferred to general India Office balance for meeting Secretary of State's requirements (*See* "Other Transactions" below) -	933,749
Securities sold or repaid on maturity	10,822,051	11,776,906	Closing Cash balance [The market value of the sterling securities at this date was 5,104,078*l.*]	—
Total -		11,815,312	Total - -	11,815,312

OTHER TRANSACTIONS

		£		£
Opening balance -		5,146,111	Railways Payments on Capital Account, including discharge of railway loans - - - -	12,396,194
Railways Proceeds of railway loans		13,595,597	Purchase of silver - -	1,523,501
General purposes	£		General Purposes Payments (less 933,749*l.* met by temporary transfer from Gold Standard Reserve, as shown above) - -	23,656,241
Receipts from sale of Council Bills and Transfers and Miscellaneous	15,026,532		Closing balance - - -	5,222,304
Gold withdrawn from Paper Currency Reserve -	4,530,000			
Proceeds of India Bills issued for general purposes -	4,500,000	24,056,532		
Total		- 42,798,240	Total - -	42,798,240

16 The upper part of the summary shows that the Gold Standard Reserve was drawn upon to the extent of 8,058,000*l.* to meet bills sold in India towards enabling the unfavourable trade balance to be liquidated, and 933,749*l.* towards meeting the Secretary of State's requirements or 8,991,749 in all

17 Regarding the exact amount of the exceptional demands included in the transactions shown in the lower part of the summary ("Other Transactions,") there is room for difference of opinion, but not to any very important extent The correct figure appears to me to be 8,629,709*l.*, being the excess of the expenditure of 23,656,241*l.* for General Purposes over the receipts of 15,026,532*l.* received for such purposes from normal sources, and it will be noticed that the abnormal receipts from which this excess was met, namely 4,530,000*l.* withdrawn in gold from the Paper Currency Reserve, and 4,500,000*l.* received through the issue of India Bills, corresponds fairly closely to this amount, the difference being due to the fact that the amounts provided from these two sources proved to be slightly in excess of requirements as indicated by the comparatively large amount of the closing balance I exclude from my calculations of "exceptional demands" the following sums shown in the summary :—

A 1,199,403*l.*, representing the excess of the proceeds of railway loans over payments for railways on capital account The reason for this exclusion is that, as explained in my Memorandum on "The General Balances of the Government of India on the Sale of Council Bills and Transfers" the raising in England of railway loans in excess of the capital expenditure in England on railways in years in which there are no large balances to draw

upon, is necessitated by the fact that the loans raised in India and other resources in India specially allocated for capital expenditure, ordinarily fall short of the capital outlay in India

B 1,523,501*l* paid for silver bought before the prospect of an adverse trade balance showed itself If I give evidence as to the way in which the purchase of silver is regulated, I shall be able to show that the purchases which involved this payment were in excess of requirements, would not have been made if the system now in force of regulating purchases in accordance with the India Office Memorandum (page 188) enclosed in Lord Morley's Despatch No 25 of 18th February 1910 had been in force in 1907, and would not be made on any future occasion on which the conditions existing in 1907 were reproduced

18 I therefore calculate that the exceptional demands that had to be met in the sixteen months from September 1907 to December 1908 in consequence of the unfavourable state of exchange were as follows —

	£
From Gold Standard Reserve (to meet Bills and to strengthen Treasury Balances) - -	8,991,749
Excess of payments for general purposes over normal receipts available for such purposes (as shown under " Other Transactions ") -	8,629,709
Total -	17,621,458

19 Assuming that the strain experienced in the period mentioned is as great, or nearly as great, as it is reasonable to provide for, it would appear that even if the London Branch of the Gold Standard Reserve were the only resource at the disposal of the Secretary of State in England for meeting a fall in exchange, the present regulations which provide that it shall accumulate up to 25,000,000*l*, and which contemplate that thereafter a portion of the profits of future coinage may be diverted to other purposes (leaving a portion to be added to the Reserve, together with the accruing interest, to provide for the growth of possible requirements), do not err on the side of rashness As a matter of fact there appears to be no reason, unless a change of policy is made with regard to the Paper Currency Reserve, for not assuming that there will also be available at the commencement of any future period of adverse exchange, several millions in gold in the Paper Currency Reserve in England ready to be used, like the 4,530,000*l* mentioned in the summary on the preceding page as having been so used in 1907–08, to supplement the Gold Standard Reserve

20 Up to this point I have dealt only with the extent to which the exceptional demands for the support of exchange between September 1907 and December 1908 arose and were met in England It might be held that the diminution during this period of the stock of gold held by the Government of India in India, as shown in Statement D (page 103) represents exceptional demands for the same purpose that arose and were met in India For the reasons given in paragraph 4 (*b*) above, I think that this view is substantially incorrect It seems clear from the figures referred to in that paragraph and given in detail in the penultimate column of Statement D that in 1907–08 the gold held in India was of little, if any, immediate use for the support of exchange and that practically the whole of the exceptional demands for the support of exchange were met in England and were represented by the figure of 17,621,458*l* given above Any difference of opinion on this point does not appear to affect materially the argument regarding the amount required for the Gold Standard Reserve in England There is no reason to doubt that at the commencement of any future exchange crisis, a certain stock of gold will be held by the Government of India in the Paper Currency Reserve in India, as was the case in 1907–8, and will serve to the same extent (if any) as the gold then held to meet demands arising in India for the support of exchange If this is so, the calculation in support of the argument that 25,000,000*l* is enough to meet demands for the same purpose arising in England is unaffected

21 Even if the Commission does not accept the particular calculation above as to the amount to which the London Branch of the Gold Standard Reserve should be allowed to accumulate before profits on further coinage are used for capital expenditure, they may perhaps accept the view that some limit should be fixed, and that when that limit has been reached a portion of future profits should be used for the purpose mentioned Failing this, there will be a danger that money urgently required for the development of India and for its security against famine, will be uneconomically employed by being added unnecessarily to the Gold Standard Reserve

VI

Indian Branch of the Reserve

22 Statement A (page 97) shows that since 1906 a portion of the Gold Standard Reserve (now known as the Indian Branch of the Reserve) has been held in India in silver The recognised normal amount to be so held is six crores of rupees (4,000,000*l*.), though for special reasons this figure has often been departed from For the first few months the amount so held was in partially coined rupees Lord Morley's Despatch of 16th November 1906, No 135, page 146, sanctioned a proposal of the Government of India that it should be held in rupees Under an arrangement proposed in paragraph 8 of the Letter from the Government of India, No 18, of 29th February 1912, page 195, and accepted by the Secretary of State in his Despatch, No 76 (Financial), of 28th June 1912, page 201, a portion of the Indian branch of the Reserve will occasionally be held for a few months in the year in gold in India The reason for the establishment of the Indian Branch was that in 1906 the Government of India (*see* their Letter of 26th April 1906, Appendix V, page 137,) wished to increase their holding of rupees and of silver ready for coinage, and thought that the cost could be met advantageously, and without prejudice to the future maintenance of exchange, from money that would otherwise have gone to the sterling branch of the Gold Standard Reserve Their proposal to this effect was approved by the Secretary of State The advantage of what was done in 1906 arose from the fact that, if the additional silver then required had not been bought from the resources of the Gold Standard Reserve, only a small part of its cost could have been met from the balances of the Secretary of State and the Government of India, and it would therefore have been necessary to pay a considerable portion from the gold held in the Paper Currency Reserve This was thought undesirable at the time, because the stock of gold in the Paper Currency Reserve was comparatively low, and it seemed more advantageous to avoid reducing it than to secure a corresponding increase in the securities of the Gold Standard Reserve The force of this consideration has now passed away, owing to the great increase in the circulation of currency notes and in the amount of gold that can be, and is, held in the Paper Currency Reserve, and, if there were no other consideration affecting the matter, there would be much to be said for the view that the right course would now be to transfer to the Paper Currency Reserve all the rupees held in the Gold Standard Reserve against a corresponding transfer of sovereigns in the other direction

23 There are, however, two other points to be borne in mind —

(A) In a Letter of the 29th February 1912, page 195, Appendix V, the Government of India make the following remarks —"Our Gold "Standard Reserve silver is a bulwark against hasty coining It "supplements our general stock of rupees when the latter is running low, "it gives us time to buy silver at discretion, or if the stringency is "temporary, it enables us to carry through without fresh coining until "the return of rupees from circulation recommences" I think that the effect of these remarks is mainly that, if the standard of the amount of rupees to be held in the Paper Currency Reserve is rather too low, the presence of rupees in the Indian branch of the Gold Standard Reserve supplements the deficiency But it would seem that the deficiency could be removed with greater directness and simplicity and less liability to misunderstanding by

raising the standard of rupees to be held in the Paper Currency Reserve On this view, this particular justification for the existence of the Indian branch of the Gold Standard Reserve would not have very great force

(B) There is a wholly different justification, which seems to have great force I fear that its explanation must be a little intricate From time to time there is a trade demand for Council Bills and Transfers considerably in excess of what the Government of India can meet from their Treasury balances The usual method of dealing with such a demand is as follows —

(1) The Secretary of State responds to it by selling Bills and Transfers, as indeed he is bound to do, under the Notification issued by Mr Brodrick in 1904, when the demand is for Bills at 1*s* 4⅛*d* the rupee

(2) Except in circumstances such as are described immediately below, he transfers the proceeds of his sales in sovereigns to the portion of the Paper Currency Reserve held in England (or, in money market language, "earmarks" sovereigns), and thus enables the Government of India to place themselves in funds for meeting the Bills and Transfers either by the issue of additional notes against the "earmarked" gold or by the withdrawal of a corresponding amount in rupees from the portion of the Paper Currency Reserve held in India

24 Indian interests would be liable to be injured if this procedure were followed, either at a time when the Secretary of State has in hand an operation (such as the issue of a loan or the renewal of a large block of debenture bonds) of which the success might be prejudiced by sudden stringency in the London money market or at a time when stringency already exists and an increase of it is likely to react on trade generally, including Indian trade And this liability to injury would not be avoided, as might at first seem possible, if the Secretary of State had recourse to the simple expedient of refusing to sell Bills and Transfers, since such action would probably lead to large shipments of gold by the Exchange Banks from England to India, with an effect on the money market similar to that produced by "earmarking"

25 In circumstances such as these, Bills and Transfers sold by the Secretary of State are met by the Government of India from the rupees in the Indian Branch of the Gold Standard Reserve, the sale proceeds are temporarily added by the Secretary of State to the London Branch, and disturbance of the London money market is avoided This seems to be an extremely useful purpose served by the Indian Branch, so useful, indeed, as to justify the continued maintenance of the Indian Branch, unless an alternative method of securing the same object is introduced

26 The one alternative method that has been suggested is to amend the Indian Paper Currency Act so as to allow the Secretary of State to make temporary additions to the London portion of the Paper Currency Reserve by other means than the "earmarking" of gold, *e g*, by adding sterling securities or by allocating to the Reserve deposits at the Bank of England or loans granted under suitable conditions to first-class borrowers against British or Indian Government securities This scheme has some obvious advantages, its disadvantages are that—

The purchase at short notice of large quantities of securities suitable to be held for a few weeks or months and then sold would seldom be easy and might at times be impracticable

The temporary holding, as part of the Reserve, of Bank of England deposits or loans on security, while open to no substantial objection—since scarcely any safer form of reserve can be found—might be regarded on account of its novelty with suspicion as a form of "juggling with the Reserve" This objection would certainly be diminished, perhaps removed, if the scheme were recommended by so authoritative a body as the present Royal Commission

* Hitherto rupees have been taken from the Indian Branch as a loan, but the improved procedure described in the text has now been agreed to by the Secretary of State and the Government of India (*See* Lord Crewe's Despatch, No 13 (Financial), dated 24th January 1913, page 206)

27 As it is possible that the Commission may recommend, and His Majesty's Government may approve, the abolition of the Indian Branch of the Gold Standard Reserve, it may be well to say something of the steps by which this measure could be carried out

28 The first step would naturally be to transfer simultaneously (1) all the rupees now in the Gold Standard Reserve to the Paper Currency Reserve, and (2) an equivalent amount in sovereigns from the Paper Currency Reserve to the Gold Standard Reserve It would be necessary to decide at the same time what was to be done with the sovereigns One alternative would be to hold them in India, to be shipped to the Secretary of State on the next occasion of a serious fall in exchange Another alternative would be to hold them in India to be issued to the public in exchange for rupees on any such occasion, under such regulations as might seem best calculated to ensure that, when so issued, they would be used for export in liquidation of an adverse trade balance If the first of these alternatives were adopted, the Indian branch of the Reserve would serve the same purpose as the London branch, viz, to support exchange during unfavourable trade conditions This would also be the case under the second alternative, provided that the regulations suggested were really effective, a point of which the importance is sufficiently illustrated by what is said on page 90 A third alternative would be to send the sovereigns to England as soon as they were transferred from the Paper Currency Reserve, and either to hold them at the Bank of England, apart from the Bank's general reserve, or to buy with them short dated securities

Statement A

Amount, Composition, and Location of the Gold Standard Reserve 1901 to 1913

Date	England: Securities at Market value	England: Cash at Short notice	England: Gold deposited at the Bank of England	England: Total	India: Loans and Book credits	India: Gold	India: Silver	India: Total	Total England and India
	1	2	3	4	5	6	7	8	9
1901	£	£	£	£	£	£	£	£	£
31st March	—	—	—	—	1,830,000	1,200,000	—	3,030,000	3,030,000
30th June	199,618	—	—	199,618	1,842,589	1,097,776	—	2,940,365	3,140,013
30th September	993,279	*217*	—	993,032	1,841,383	597,710	—	2,439,093	3,432,125
31st December	1,008,424	—	—	1,008,424	—	2,439,093	—	2,439,093	3,447,517
1902									
31st March	3,456,426	—	—	3,456,426	—	—	—	—	3,456,426
30th June	3,546,647	—	—	3,546,647	38,485	—	—	38,485	3,585,132
30th September	3,455,913	—	—	3,455,913	286	175,485	—	175,771	3,631,684
31st December	3,467,372	—	—	3,467,372	2,005	260,771	—	262,776	3,730,148
1903									
31st March	3,652,371	—	—	3,652,371	1,027	—	—	1,027	3,653,398
30th June	3,770,036	—	—	3,770,036	3,417	261,027	—	264,444	4,034,480
30th September	3,860,878	—	—	3,860,878	1,954	3,417	—	5,371	3,866,249
31st December	3,900,794	—	—	3,900,794	295,698	323,417	—	619,115	4,519,909
1904									
31st March	6,041,958	—	—	6,041,958	167,158	417	—	167,575	6,209,533
30th June	6,367,518	—	—	6,367,518	25,825	440,417	—	466,242	6,833,760
30th September	6,871,653	—	—	6,871,653	13,153	416	—	13,569	6,885,222
31st December	6,951,743	499,604	—	7,451,347	76,740	200,416	—	277,156	7,728,503
1905									
31st March	8,387,976	—	—	8,387,976	152,000	—	—	152,000	8,539,976
30th June	8,542,313	—	—	8,542,313	42,134	70,000	—	112,134	8,654,447
30th September	8,870,106	—	—	8,870,106	31,234	*70,000	—	101,234	8,971,340
31st December	9,898,999	—	—	9,898,999	97,434	240,000	—	337,434	10,236,433
1906									
31st March	12,122,701	—	—	12,122,701	286,879	—	—	286,879	12,409,580
30th June	11,930,210	—	—	11,930,210	218,655	—	1,182,800	1,401,455	13,331,665
30th September	11,897,180	—	—	11,897,180	217,956	—	2,301,867	2,519,823	14,417,003
31st December	11,919,061	—	—	11,919,061	†3,520,723	—	69,540	3,590,263	15,509,324
1907									
31st March	11,960,314	—	—	11,960,314	301,305	21,725	4,000,000	4,323,030	16,283,344
30th June	12,826,396	13,964	—	12,840,360	139,717	90,000	4,000,000	4,229,717	17,070,077
30th September	12,901,675	—	—	12,901,675	36,891	73,970	4,000,000	4,110,861	17,012,536
31st December	13,208,489	13,810	—	13,222,299	60,044	263,349	4,000,000	4,323,393	17,545,692
1908									
31st March	12,978,839	1,131,223	—	14,110,062	310	—	4,000,000	4,000,310	18,110,372
30th June	10,362,929	*321,407*	—	10,041,522	310	—	8,178,000	8,178,310	18,219,832
30th September	6,029,204	76,777	—	6,105,981	310	—	12,058,000	12,058,310	18,164,291
31st December	5,104,078	—	—	5,104,078	‡1,000,310	—	11,991,749	12,992,059	18,096,137
1909									
31st March	7,433,953	169,818	—	7,603,771	344	—	10,586,734	10,587,078	18,190,849
30th June	9,699,589	711,272	—	10,410,861	344	—	7,786,734	7,787,078	18,197,939
30th September	9,757,979	668,666	—	10,426,645	344	—	7,786,734	7,787,078	18,213,723
31st December	10,150,141	1,017,192	—	11,167,333	§2,000,344	—	4,786,734	6,787,078	18,254,411
1910									
31st March	12,695,713	3,010,528	—	15,706,241	—	—	2,534,302	2,534,302	18,240,543
30th June	14,643,471	1,262,467	—	15,905,938	—	—	2,534,302	2,534,302	18,440,240
30th September	14,423,104	1,427,691	—	15,816,795	—	—	2,534,302	2,534,302	18,381,097
31st December	14,513,878	1,437,425	—	15,951,303	—	—	2,534,302	2,534,302	18,485,605
1911									
31st March	15,407,834	1,477,358	—	16,885,192	—	—	1,934,302	1,934,302	18,819,494
30th June	15,368,740	1,442,658	—	16,811,398	—	—	1,934,302	1,934,302	18,745,700
30th September	15,606,290	1,222,880	—	16,829,170	—	—	1,934,302	1,934,302	18,763,472
31st December	15,958,904	973,434	—	16,932,338	—	—	1,934,302	1,934,302	18,866,640
1912									
31st March	16,087,722	1,073,710	—	17,161,432	—	—	1,934,302	1,934,302	19,095,734
30th June	16,111,795	1,004,672	—	17,116,467	—	—	1,934,302	1,934,302	19,050,769
30th September	13,889,833	3,234,107	—	17,123,940	—	—	2,100,000	2,100,000	19,223,940
31st December	15,965,149	1,013,690	250,000	17,228,839	—	—	3,745,667	3,745,667	20,974,506
1913									
31st March	15,945,669	1,005,664	1,620,000	18,571,333	—	—	4,000,000	4,000,000	22,571,333

* The Gazette of India, 9th December 1905, gives the amount of gold held in India as 370,000*l*, and the amount of Treasury Bills held in England as 1,200,000*l* A transfer of 300,000*l* to Gold Standard Reserve in England was, however, actually made on 28th September, and the sum was invested in Treasury Bills, raising the amount of the latter to 1,500,000*l*

† Including 2,533,333*l* temporary loan to the Government of India at 3½ per cent interest

‡ Including 1,000,000*l* temporary loan to the Government of India at 3½ per cent interest

§ Including 2,000,000*l* temporary loan to the Government of India

Statement B

VALUATION OF THE SECURITIES HELD ON BEHALF OF THE GOLD STANDARD RESERVE ON 31ST MARCH 1913, INTEREST RECEIVED, LOSS ON SALE OF SECURITIES, DEPRECIATION, AND NET PROFIT TO SAME DATE

Security	Nominal Value	Cost Price	Minimum Market Price on 31st March 1913	Market Value
Securities not due for early redemption —	£	£		£
2½ per cent Consolidated Stock - -	4,665,770	4,207,463	74½	3,475,998
Local Loans 3 per cent Stock -	200,000	195,106	85¼	170,500
Guaranteed 2¾ per cent Stock	438,720	407,187	74½	326,847
Transvaal Government 3 per cent Guaranteed Stock, 1923–53 -	1,092,023	1,076,524	90	982,820
Total -	6,396,513	5,886 280		4,956,165
Securities due for early redemption —				
British Treasury Bills				
Maturing 9th August 1913	400,000	392,603	98½	394,000
Maturing 16th August 1913 -	1,000,000	980,890	98⅜	983,750
Maturing 21st August 1913	1,000,000	980,784	98 5/16	983,125
Exchequer 2½ per cent Bonds, redeemable 18th April 1913–15 -	50,000	50,032	*99	49,675
Exchequer 3 per cent Bonds, redeemable 5th April 1915	2,885,600	2,874,984	99¼	2,863,958
Exchequer 3 per cent Bonds, redeemable 14th October 1916 -	4 000,000	4,000,000	99⅛	3,965,000
Canada 3¾ per cent Bonds, redeemable 1st July 1914–19	161,000	164,437	97	156,170
Corporation of London 3¼ per cent Debentures, redeemable 1st June 1914 -	50,000	50,001	†99 15/16	49,977
Corporation of London 3½ per cent Debentures, redeemable 1st July 1915 -	45,000	45,151	†100	45,384
Corporation of London 3¼ per cent Debentures, redeemable 10th April 1913	50 000	50,002	†99 19/32	50,74[illegible]
New Zealand 3½ per cent Debentures, redeemable 31st December 1914 - -	101,400	100,007	98	99,372
New Zealand 3½ per cent Debentures, redeemable 1st April 1915 -	45,000	45,170	98	44,100
New Zealand 3½ per cent Debentures, redeemable 1st July 1914 - -	100,000	98,205	98	98,000
Queensland 4 per cent Bonds, redeemable 1st July 1915	95,000	97,067	99	94,050
Queensland 4 per cent Stock, redeemable 1st July 1915	55,000	56,208	99	54,450
New South Wales 4 per cent Bonds redeemable 1st March 1915 -	4,000	4,105	99	3,960
New South Wales 3½ per cent Stock, redeemable 1st September 1918 -	113,000	112,442	95	107 350
New South Wales Bills, maturing 16th May 1913	250,000	241,512	99⅜	248,438
Southern Nigeria 4 per cent Bonds, redeemable 15th September 1916 - - -	100 000	98,881	98	98,000
Union of South Africa Bills, maturing 1st April 1913	600,000	577,500	100	600,000
Total - -	11,105,000	11,020,281		10,989,504
Grand Total -	17,501,513	16,906,561		15,945,669

Cash placed by the Secretary of State at short notice - - -		1,005,664
Gold deposited at the Bank of England - - -		1,620,000
Total -		18,571,333
	£	£
The dividends on investments, discount on Treasury Bills, and interest on loans at short notice received to 31st March 1913 amounted to -		3,421,894
The net loss on securities sold and redeemed to 31st March 1913 was -	160,377	
The depreciation on securities on 31st March 1913, as shown above, was -	960,892	
		1,121,269
Net profit - - - - -		£2,300,625

* 17,500*l* drawn for repayment on 18th April valued at par † *Plus* accrued interest

Statement C

Securities bought, sold, and discharged at maturity, 1901-02 to 1912-13

Description of Security	Securities purchased: Nominal Amount	Average Price	Cost Price	Securities sold and discharged at Maturity: Sold: Nominal Amount	Average Price	Amount realised	Discharged at Maturity at Par
	£	£ s d	£	£	£	£	£
1901-02							
2¾ p c Consolidated Stock	3,667,295	94 3 10	3,454,245	—	—	—	—
1902-03							
2½ p c Consolidated Stock	385,267	92 8 6	356,085		—	—	—
1903-04							
2½ p c Consolidated Stock	1,991,196	86 16 0	1,728,399	—	—	—	—
National War Loan 2¾ p c Stock	322,896	97 9 10	314,790	—	—	—	—
Local Loans, 3 p c Stock	330,224	97 16 4	323,000	—	—	—	—
Transvaal Government 3 p c Guaranteed Stock 1923-53	209,594	95 8 5	200,000	—	—	—	—
	2,853,910	—	2,566,189	—	—	—	—
1904-05							
National War Loan 2¾ p c Stock	205,138	97 16 0	200,629	—	—	—	—
Local Loans 3 p c Stock	104,288	95 16 3	99,921	—	—	—	—
Transvaal Government 3 p c Guaranteed Stock 1923-53	514,142	97 3 3	499,562	—	—	—	—
British Treasury Bills (6 months)	1,200,000	98 16 8	1,185,984	—	—	—	—
	2,023,568	—	1,986,096	—	—	—	—
1905-06							
2½ p c Consolidated Stock	1,597,452	89 15 0	1,433,677	—	—	—	—
National War Loan 2¾ p c Stock	724,332	98 17 11	716,327	—	—	—	-
Local Loans 3 p c Stock	65,489	99 0 3	64,843	—	—	—	—
Transvaal Government 3 p c Guaranteed Stock 1923-53	770,588	100 7 8	773,534	—	—	—	-
2¾ p c Guaranteed Stock	538,720	92 16 3	500,000	—	—	—	—
British Treasury Bills (6 months)	3,000,000	98 14 10	2,962,201	—	—	—	2,700,000
	6,696,581	—	6,450,602	—	—	—	2,700,000
1906-07							
2½ p c Consolidated Stock	261,922	88 10 9	231,906	—	—	—	—
National War Loan 2¾ p c Stock	124,755	97 9 0	121,575	—	—	—	—
British Treasury Bills (6 months)	3,000,000	98 5 2	2,947,720	—	—	—	3,000 000
	3,386,677	—	3,301,201	—	—	—	3,000,000

Description of Security	Securities purchased			Securities sold and discharged at Maturity			
	Nominal Value	Average Price	Cost Price	Sold			Discharged at Maturity at Par
				Nominal Amount	Average Price	Amount realised	
	£	£ s d	£	£	£ s d	£	£
1907-08							
2½ p c Consolidated Stock	[illegible]	85 6 5	120,000	1,000,000	87 16 3	878,125	—
National War Loan 2¾ p c Stock	87,054	97 10 10	84,914	—		—	—
3 p c Exchequer Bonds (1909)	1,000 000	99 12 6	996 250	—	—	—	—
British Treasury Bills — Six months	3,000 000	98 6 10	2,950,239	—	—	—	3,000 000
119 days	75 000	99 5 4	74,450	—	—	—	—
	4 654,302	—	4,525,853	1,000,000	—	878,125	3 000,000
1908-09							
2½ p c Consolidated Stock	39 873	83 11 3	33 319	3,269,183	86 6 6	2,822,363	—
National War Loan 2¾ p c Stock	486,568	100 2 6	487,176	1,164,175	99 17 3	1,162,189	—
Canada Treasury Bills — 341 days	750 000	97 8 7	730 731	—	—	—	—
334 days	250 000	97 9 8	243 709	—	—	—	—
New South Wales Bills (6 months)	500,000	98 16 2	493 801	—	—	—	—
British Treasury Bills	—	—	—	1,500,000	99 14 3	1,495,712	75,000
3 p c Exchequer Bonds (1909)	—	—	—	1,000,000	100 1 10	1,000 937	—
Local Loans 3 p c Stock	—	—	—	300,000	98 19 7	296,937	—
Transvaal Government 3 p c Guaranteed Stock 1923-53	—	—	—	402 302	98 14 7	397,187	—
2¾ p c Guaranteed Stock	—	—	—	100 000	89 6 3	89,312	—
	2,026,441	—	1,988,736	8,035,960	—	7,564,637	75,000
1909-10							
2½ p c Consolidated Stock	500,000	85 8 9	427 188	—	—	—	—
National War Loan 2¾ p c Stock	115 000	100 16 11	115 971	—	—	—	—
„ War Loan 2¾ p c Bonds	266,000	100 11 1	267 738	—	—	—	—
3 p c Exchequer Bonds (1912)	600,000	100 9 0	602,707	—	—	—	—
British Treasury Bills —	—	—	—	—	—	—	2,143 000
Six months	5 344,000	98 12 11	5 271,566	—	—	—	—
Three months	750 000	98 19 6	742,328	—	—	—	—
167 days	400,000	99 6 4	397,255	—	—	—	—
Canada Treasury Bills —	—	—	—	—	—	—	1,000,000
One year and 84 days	500 000	96 12 4	483,086	—	—	—	—
155 days	50,000	98 19 0	49,475	—	—	—	—
Five months	530,000	98 19 8	524,621	—	—	—	—
Natal Treasury Bills (12 months)	500 000	96 17 6	484 375	—	—	—	—
New Zealand Bills (178 days)	30,000	99 5 4	29,780	—	—	—	30,000
3 p c Exchequer Bonds (1915) — Deposit on allotment	—	99 10 0 (see next year)	30,460	—	—	—	—
New South Wales Treasury Bills	—	—	—	—	—	—	500,000
	9,585,000	—	9,426,550	—	—	—	3,073,000

Description of Security	Securities purchased: Nominal Amount	Securities purchased: Average Price	Securities purchased: Cost Price	Securities sold and discharged at Maturity: Sold: Nominal Amount	Sold: Average Price	Sold: Amount realised	Discharged at Maturity at Par
	£	£ s d	£	£	£	£	£
1910-11							
3 p c Exchequer Bonds (1915) Balance of purchase money	1,523,000	99 10 0	1,484,925	—	—	—	—
3 p c Exchequer Bonds (1915)	2,227,600	99 13 3	2,220,117	—	—	—	—
British Treasury Bills (6 months)	8,400,000	98 14 1	8,291,214	—	—	—	8,251,000
Canada 3¾ p c Bonds (1912)	378,000	101 10 6	383,758	—	—	—	—
„ 3¾ p c Bonds (1914-19)	111,000	102 17 5	114,186	—	—	—	—
„ 4 p c Bonds (1912)	81,000	102 13 0	83,146	—	—	—	—
„ Treasury Bills	—	—	—	—	—	—	1,080,000
Cape of Good Hope 4 p c Bonds (1911)	107,500	102 14 3	110,414	—	—	—	—
New South Wales Bonds (1915)	4,000	102 12 6	4,105	—	—	—	—
„ 4 p c Stock (1918)	113,000	99 10 1	112,442	—	—	—	—
New Zealand 3½ p c Debentures (1915)	45,000	100 7 7	45,170	—	—	—	—
„ 3½ p c Debentures (1914)	101,400	98 12 6	100,007	—	—	—	—
„ 3¾ p c Debentures (1912)	45,000	100 12 6	45,282	—	—	—	—
Queensland 4 p c Bonds (1915)	17,000	101 5 2	17,214	—	—	—	—
„ 4 p c Stock (1917)	10,000	101 7 7	10,138	—	—	—	—
Corporation of London 3¼ p c Debs (1913)	50,000	100 0 1	50,002	—	—	—	—
„ „ 3¼ p c Debs (1914)	50,000	100 0 0	50,001	—	—	—	—
„ „ 3½ p c Debs (1915)	45,000	101 0 0	45,451	—	—	—	—
Natal Treasury Bills	—	—	—	—	—	—	500,000
National War Loan Stock and Bonds	—	—	—	—	—	—	867,568
	13,308,500	—	13,167,572	—	—	—	10,698,568

Description of Security	Securities purchased: Nominal Amount	Securities purchased: Average Price	Securities purchased: Cost Price	Securities sold and discharged at Maturity: Sold: Nominal Amount	Sold: Average Price	Sold: Amount realised	Discharged at Maturity at Par
1911-12							
3 p c Exchequer Bonds (1912)	250,000	100 0 8	250,079	—	—	—	—
„ „ (1915)	135,000	100 11 11	135,803	—	—	—	—
British Treasury Bills (6 months)	9,000,000	98 10 4	8,866,412	—	—	—	9,000,000
Canada 3¾ p c Bonds (1914-19)	50,000	100 10 0	50,251	—	—	—	—
Union of S Africa Bills (9 months)	500,000	97 11 0	487,757	—	—	—	—
Southern Nigeria 4 p c Bonds (1916)	100,000	98 17 7	98,881	—	—	—	—
Cape of Good Hope Bonds	—	—	—	—	—	—	107,500
	10,035,000	—	9,889,183	—	—	—	9,107,500

Description of Security	Securities Purchased			Securities sold and discharged at Maturity			
	Nominal Amount	Average Price	Cost Price	Sold			Discharged at Maturity at Par
				Nominal amount	Average Price	Amount realised	
	£	£ s d	£	£	£	£	£
	1912-13						
2½ p c Exchequer Bonds (1913-15)	50,000	100 1 3	50,032	—	—	—	—
3 p c Exchequer Bonds (1916)	4,000,000	100 0 0	4,000,000	—	—	—	—
3 p c Exchequer Bonds (1915)	—	—	—	1,000,000	100	1,000,000	—
British Treasury Bills —	—	—	—	—	—	—	6,900,000
Six months	3,800,000	98 4 4	3,732,223	—	—	—	—
165 days	1,000,000	98 13 5	986,726	—	—	—	—
Queensland 4 p c Bonds (1915)	78,000	102 7 6	79,854	—	—	—	—
„ „ Stock (1915)	45,000	102 7 7	46,070	—	—	—	—
New Zealand 3½ p c Debs (1914)	100,000	98 4 1	98,205	—	—	—	—
Union of S Africa Bills (12 months)	600,000	96 5 0	577,500	—	—	—	500,000
New South Wales Bills — 358 days	100,000	96 12 0	96,599	—	—	—	—
357 days	150,000	96 12 2	144,913	—	—	—	—
Canada 3½ p c Bonds	—	—	—	—	—	—	378,000
„ 4 p c Bonds	—	—	—	—	—	—	81,000
New Zealand 3½ p c Debs	—	—	—	—	—	—	45,000
3 p c Exchequer Bonds (1912)	—	—	—	—	—	—	850,000
	9,923,000	—	9,812,122	1,000,000	—	1,000,000	8,754,000

Statement D.

Exchange Rates, Sales by the Government ... suries and Reserves in India, and Exports of ...

Month	Highest and Lowest rate of ... London (fro... Calcutta Highest	Calcutta Lowest	Exports of Sovereigns and other British Gold coins from India on private account during Month	Remarks
1907	s d	s d	£	
September	1 $4\frac{1}{32}$	1 $3\frac{31}{32}$	14	
October	1 $4\frac{1}{32}$	1 $3\frac{31}{32}$	9,109	
November	1 4	1 $3\frac{25}{32}$	3	
December	1 $3\frac{15}{16}$	1 $3\frac{27}{32}$	2,501	
1908				
January	1 $3\frac{15}{16}$	1 $3\frac{29}{32}$		
February	1 $3\frac{31}{32}$	1 $3\frac{7}{8}$	7	
March	1 $3\frac{29}{32}$	1 $3\frac{27}{32}$	3	*Increase
			6	
April	1 $3\frac{7}{8}$	1 $3\frac{27}{32}$	10,088	
May	1 $3\frac{7}{8}$	1 $3\frac{27}{32}$	2,002	† Tenders received for 741,000*l*
June	1 $3\frac{29}{32}$	1 $3\frac{27}{32}$	2,995	
July	1 $3\frac{7}{8}$	1 $3\frac{27}{32}$	115,005	‡ Tenders received for 550,000*l*
August	1 $3\frac{29}{32}$	1 $3\frac{27}{32}$	81,308	
September	1 $3\frac{31}{32}$	1 $3\frac{29}{32}$	137	Offer to sell bills on London discontinued 11th September 1908, F 5644 215,000*l*, light British Gold Coin and 25,000*l* gold bullion sent by Government of India to Secretary of State
October	1 $3\frac{15}{16}$	1 3[illegible]	1,243	
November	1 $3\frac{29}{32}$	1 $3\frac{7}{8}$	25,500	
December	1 $3\frac{15}{16}$	1 $3\frac{29}{32}$	21	‖ Increase
			249,912	* Including the 215,000*l* light coin mentioned above

	DISBURSEMENTS						CLOSING BALANCE		
	TREASURY								
	Discharge of Debt including Railway Debentures	Capital Expenditure on Railways and Irrigation Works, (including withdrawals by Railway Companies)	Total Capital Payments	Payments for Silver	Other Payments	Total	Treasury	Gold Standard Reserve	Total
	£	£	£	£	£	£	£	£	£
063	—	480,946	480,946	1,036,913	534,793	2,052,652	4,229,170	−*1,003*	[illegible]
	—	724,341	724,341	183,546	2,627,047	3,534,934	3,381,465	70,685	3,452,150
750	30,000	784,204	814,204	12,607	903,352	1,730,163	3,165,945	—	3,165,945
000	—	772,302	772,302	−*9,113*	529,198	1,292,357	4,051,818	13,810	4,065,628
750	134,700	584,769	719,469	−*322*	3,667,364	4,386,511	3,484,938	—	3,484,938
	—	719,645	719,645	−*100*	1,131,828	1,851,373	4,797,306	—	4,797,306
000	—	996,842	996,842	—	648,799	1,645,641	4,607,231	1,131,223	[illegible]
000	67,000	636,122	703,122	—	2,712,972	3,416,094	2,192,008	397,653	2,589,661
000	—	1,087,779	1,087,779	—	730,366	1,818,145	3,167,994	278,503	3,446,497
000	—	665,075	665,075	—	991,027	1,656,102	4,949,148	−*321,407*	4,627,741
000	198,700	804,044	1,002,744	—	3,461,090	4,463,834	2,380,227	408,334	2,788,561
000	100	729,509	729,609	—	1,515,936	2,245,545	2,214,029	−*375,785*	[illegible]
000	—	594,198	594,198	—	530,522	1,124,720	3,163,193	76,777	[illegible]
	—	945,615	945,615	—	2,877,705	3,823,320	1,317,160	112,700	[illegible]
749	300,000	565,105	865,105	—	1,171,553	2,036,658	1,236,508	—	[illegible]
	—	575,198	575,198	—	556,438	1,131,636	5,222,304	—	[illegible]
12	730,500	11,665,694	12,396,194	1,523,501	[illegible]	[illegible]			

APPENDIX IV

SUPPLEMENTARY STATEMENTS TO ACCOMPANY MEMORANDUM ON GOLD STANDARD RESERVE, SUBMITTED BY MR L ABRAHAMS, C B, ASSISTANT UNDER SECRETARY OF STATE FOR INDIA

In connection with the question of the amount up to which the London branch of the Gold Standard Reserve should be allowed to accumulate, I submit three additional statements

Statement 1 —The summary on page 92 of my Memorandum on the Gold Standard Reserve gave information about the cash transactions of the India Office from 1st September 1907 to 31st December 1908, that period being chosen because it included all the special measures taken in 1907 and 1908 for supporting exchange, or arising out of the necessity for so doing, the last of such measures having been the issue of 2,500,000*l* India Bills in December 1908 Statement 1 below gives corresponding information for the period from 1st September 1907 to 31st August 1908, the latter month being the one in which the exchange crisis may be considered from some points of view to have ended since no application was received after 13th August for the bills on London offered by the Government of India, and substantial sales of Council Bills were made by the Secretary of State in September 1908 As there is room for difference of opinion as to the period over which the difficulties of 1907 and 1908 should be regarded as having extended, and consequently as to the extent of the exceptional demands that had to be met, the Royal Commission may be glad of the alternative calculation now submitted

Statement 2 gives the balance of trade on private account for each financial year from 1871–72 to 1912–13, and shows that the two years 1907–08 and 1908–09, in which the exchange crisis of 1907 and 1908 occurred were within a very small amount of being the worst two successive years in the period of 42 years

Statement 3 gives for the period from November to October in each year from 1892–93 to 1911–12 information similar to that contained in the enclosure to Lord Morley's Despatch, No 82, dated 2nd July 1909 (*See* page 175 of the Correspondence accompanying my Memorandum on the Gold Standard Reserve) It shows in a much more striking manner than do the figures for financial years the very exceptional nature of the conditions that prevailed in 1907 and 1908

STATEMENT 2

Net Exports of Merchandise and Treasure from India on Private Account from 1st April to 31st March in each year from 1871-72 to 1912-13 (from yearly Trade Tables)

Year	—	Rate of Exchange	—
	Rs	s d	£
1871-72	22,22,24,320	1 11 126	21,413 165
1872-73	21 47,17,950	1 10 754	20,357,051
1873-74	19,40,26,180	1 10 351	18 069,496*
1874-75	15,11,86,850	1 10 156	13,957 066*
1875-76	17,75,98,790	1 9 626	16,003,127*
1876-77	18,10,97,470	1 8 508	15,474,779*
1877-78	10,65,93,860	1 8 791	9,234,137*
1878-79	21,16,62,120	1 7 794	17,456,833
1879-80	17,70,44,250	1 7 961	14,724,959
1880-81	16,64,36,380	1 7 956	13 839,185
1881-82	24,68,44,820	1 7 895	20,462 407
1882-83	20 92 55,260	1 7 525	17,023,787
1883-84	23 52,10,140	1 7 536	18 771,105
1884-85	18,05 96,990	1 7 308	14,528,028
1885-86	17,62,63,410	1 6 247	13,401,160
1886-87	20 39 83 900	1 5 441	14,823 680
1887-88	15 77 47,470	1 4 898	11 106,736
1888-89	18,26 63 900	1 4 379	12,466 046
1889-90	21 21 93 600	1 4 566	14,646,663
1890-91	11 25 32 420	1 6 099	8,486,351
1891-92	29,86,90,770	1 4 733	20 824,969
1892-93	33,85,01 510	1 2 984	21,133,778
1893-94	18,09,01 140	1 2 546	10 964,056
1894-95	37 24,65,710	1 1 100	20,330,420
1895-96	35 82 00,590	1 1 638	20 354,749
1896-97	23 85,01,410	1 2 450	14 359 772*
1897-98	14 92,84,930	1 3 406	9,582,848*
1898-99	33,86,53,560	1 3 978	22,545,861
1899-1900	25,25,58,510		16,837,234*
1900-01	22,10,19,915		14,734,661*
1901-02	31,76,00,865		21,173,391*
1902-03	33,58,17,390		22,387,826
1903-04	44,34,24,000		29 561,600
1904-05	35,89,70,925		23,931,395
1905-06	44 16,24,315	1 4	29,441,621
1906-07	46,77,01,935		31,180,329
1907-08	19,97,62,680		13,317,512*
1908-09	15,05,37,735		10,035,849*
1909-10	39,63,55,620		26,423,708
1910-11	47,97,89,085		31,985,939
1911-12	46,20,88,130		30,805,875
1912-13	41,37,91 724		27,586,115

* In the years marked with an asterisk (1873-74 1874-75, 1875-76, 1876-77, 1877-78, 1896-97, 1897-98, 1899-1900, 1900-01, 1901-02, 1907-08, and 1908-09) the expenditure on Famine Relief exceeded 500,000l

STATEMENT 3

FOREIGN TRADE of India on Private Account for the period from 1st November to 31st October in each year from 1892–93 to 1911–12 (Rupees converted into sterling at the rate of Rs 15 = 1*l*)

Year	Merchandise			Gold	Silver	Merchandise Gold and Silver
	Exports	Imports	Net Exports	Net Imports	Net Imports	Net Exports
	1	2	3	4	5	6 = 3 − 4 − 5
	£	£	£	£	£	£
1892–93	71,580,000	45,010,000	26,570,000	290,000	9,750,000	16,530,000
1893–94	73,610,000	49,440,000	24,170,000	*−2,260,000*	5,890,000	20,540,000
1894–95	72,130,000	45,940,000	26,190,000	*−180,000*	3,980,000	22,690,000
1895–96	74,100,000	49,390,000	24,710,000	2,030,000	4,110,000	18,570,000
1896–97	64,580,000	43,790,000	20,790,000	2,610,000	5,190,000	12,960,000*
1897–98	73,930,000	45,740,000	28,190,000	3,180,000	4,570,000	20,440,000*
1898–99	73,670,000	48,400,000	25,270,000	4,610,000	2,660,000	18,000,000
1899–1900	69,560,000	46,920,000	22,640,000	6,130,000	940,000	15,570,000*
1900–01	78,940,000	55,130,000	23,810,000	3,810,000	2,450,000	17,550,000*
1901–02	83,700,000	52,730,000	30,970,000	3,420,000	5,250,000	22,300,000*
1902–03	91,510,000	51,050,000	40,460,000	9,560,000	3,750,000	27,150,000
1903–04	101,010,000	61,360,000	42,650,000	12,920,000	5,140,000	21,590,000
1904–05	106,470,000	66,070,000	40,400,000	9,900,000	3,970,000	26,530,000
1905–06	111,230,000	72,190,000	39,040,000	7,500,000	3,710,000	27,830,000
1906–07	129,270,000	79,050,000	50,220,000	13,150,000	6,060,000	31,010,000
1907–08	99,530,000	87,420,000	12,110,000	4,740,000	8,560,000	*−1,190,000**
1908–09	111,240,000	75,840,000	35,400,000	3,930,000	6,260,000	25,210,000*
1909–10	138,340,000	82,330,000	56,010,000	16,210,000	5,700,000	34,100,000
1910–11	150,560,000	89,850,000	60,710,000	20,470,000	4,740,000	35,500,000
1911–12	160,810,000	100,340,000	60,470,000	29,910,000	3,550,000	27,010,000

* *See* Footnote to Statement 2

APPENDIX V

Correspondence to accompany Memorandum and Statements on Gold Standard Reserve, handed in by Mr. L Abrahams, C B, Assistant Under Secretary of State for India

Letter from the Government of India to the Secretary of State, No 302, dated 6th September 1900

My Lord,

In our Despatch No 301 of 24th August 1899, we wrote, with reference to paragraph 60 of the Report of the Indian Currency Committee, 1898 "The proposal made by the Committee that any profit made "on rupee coinage should be held in gold as a special reserve has not "escaped our attention, but the need for the coinage of additional rupees "is not likely to occur for some time, and a decision on this point may "conveniently be deferred"

In our Despatch No 421 of 14th December 1899, in view of the large influx of gold which had then begun, we discussed the question of the amount or proportion of gold which we can conveniently hold in the Paper Currency Reserve, bearing in mind that presenters of notes may, for some time to come, prefer rupees to sovereigns, and that it is expedient to meet their wishes as far as possible We then estimated that it was desirable to hold in rupees $9\frac{1}{2}$ crores, with which amount we believed that there would be practically no fear of our having to exercise our option of paying currency notes in sovereigns against the wishes of the presenter The note circulation being then about 27 crores, the deduction of the investment of 10 crores and the silver holding of $9\frac{1}{2}$ crores left about $7\frac{1}{2}$ crores or 5,000,000*l* to be held in gold And the immediate measure proposed was that when the stock of gold reached 5,000,000*l* the Currency Offices should be instructed to offer sovereigns to presenters of notes, but to give rupees to anyone who might object to receive sovereigns and who might ask for rupees We said that it was not possible at that time to propose a more definite policy than that of paying out some gold when the limit suggested had been passed, that we would watch with close attention what befell the gold paid out and the attitude of the public, that we hoped, proceeding in this tentative fashion to be able in the course of the summer of 1900 to give a more confident answer to the important question discussed, "and perhaps also to form "an opinion as to when it may be desirable for the Government to make "some addition to the rupee coinage"

2 As will be seen from the table in paragraph 3 of our Honourable Colleague Sir E Law's Minute of 28th June, appended to this Despatch, the receipts of gold continued and increased after December last For more than eight months the gold in the Currency Reserve has exceeded, and the silver has been less than, the limits suggested in the Despatch of that month By the middle of January the stock of gold in the Currency Reserve in India reached 5,000,000*l* The proposal made in that Despatch was at once brought into operation, later on we sent supplies of sovereigns to the larger District Treasuries, with instructions that they should be issued to anyone who desired to receive them in payments due or in exchange for rupees, and in March we directed the Post Office to make in sovereigns all payments of Money Orders in the Presidency Towns and Rangoon, and we requested the Presidency Banks to make in the Presidency Towns and Rangoon payments on Government account as far as possible in sovereigns These measures were taken, not so much in the expectation that they would in the early future relieve us of any large part of our surplus gold, but in the

hope that they would accustom the people to gold, would hasten the time when it will pass into general circulation in considerable quantities, and by so doing would mitigate in future years the difficulties that we were experiencing from the magnitude of our stock of gold and the depletion of our stock of rupees

3 In order to meet those difficulties and to secure, if possible, that we should have enough rupees for payment to presenters of currency notes and tenderers of gold, we began to coin additional rupees In January and February we purchased in India sufficient silver to coin about a crore of rupees, and, at the same time, we re-coined into rupees between 30 and 40 lakhs of old rupees which had been withdrawn from circulation Subsequently we requested your Lordship to make the following purchases of silver for coinage —

In March 500,000*l* worth,
In April 500,000*l* worth,
In May 500,000*l* worth, and
In June 100,000*l* worth

These requests were complied with and the coinage is still proceeding In May we also obtained from the Maharaja of Gwalior a loan in the shape of Gwalior coins, worth about 15 lakhs, which we have coined into about 60 lakhs of new rupees The total new coinage that we have undertaken accordingly amounts to about 6½ crores

4 In order further to relieve our difficulties we in May, ceased receiving gold bullion below standard fineness, other than the produce of the Indian mines, and also directed that sixty days should be fixed as the period for the payment of certificates in respect of gold tendered under the Notification No 2662 of 26th June 1893

5 From the above short summary of events which have occurred in the present calendar year, it will be evident that the time has now come when it is desirable to arrive at an early decision on both the questions described in paragraph 1 of this Despatch Our Honourable Colleague Sir E Law has discussed the subject in all its bearings, and stated the measures which he recommends for adoption, in a comprehensive Minute, dated 28th June, which forms an enclosure to this Despatch We also append a Minute, dated 8th July by His Excellency the Viceroy, making observations and inquiries regarding Sir E Law's proposals, and two Minutes by Sir E Law, dated 21st July, and 23rd August, explaining and, in one or two points, modifying his proposals

6 Our Honourable Colleague's proposals may be summarised as follows —

(1) To adopt the recommendation in paragraph 60 of the Report of the Indian Currency Committee, that the profits on the coinage of rupees should not be credited to the Revenue or held as a portion of the ordinary balance of the Government of India, but should be kept in gold as a special reserve entirely apart from the Paper Currency Reserve and the ordinary Treasury Balances

(2) To add to the special reserve in gold, formed primarily by the profits on coinage, the annual interest on the investment of the Paper Currency Reserve

(3) To use in future for the purchase of silver for coinage into rupees any excess over 7,000,000*l* in the stock of gold in the Paper Currency Reserve

(4) To transfer very gradually the existing investment of 10 crores from Government of India Rupee Securities to Government of India Sterling Securities

(5) (*a*) To gradually increase the amount of the Paper Currency Investment, at present 10 crores, to a sum approximating to 50 per cent of the circulation of Currency Notes, the increase being 5 crores if the circulation remains at its present level of about 30 crores

(b) To make the additional investment in British Consols

(c) To take the funds for the additional investment from the stock of 7,000,000*l* of gold remaining in the Currency Reserve under proposal (3), thus reducing that stock to about £3½ millions, the investment to be made gradually

7 We unanimously support (1), (2), and (3) of the above proposals and strongly recommend them to your Lordship for sanction We submit the following explanations of the reasons in favour of these three proposals and of the manner in which they would be worked in practice

8 With regard to proposal (1), the fact that it was unanimously recommended by the Indian Currency Committee invests it with great authority and enables us to refrain from entering into any lengthy justification The only objection to it of any importance is that in a country like India, which borrows every year for the construction of railways and canals, it may be said to be generally inexpedient to withdraw any portion of the receipts from the general balances to be employed specially, since that course involves an increase of the annual loans by the amount so withdrawn, and consequently an increased interest charge But there are objects of sufficient importance to justify such a proceeding, and we think the maintenance of a stock of gold, adequate to ensure the success of our currency policy, to be emphatically such an object As will appear from our remarks regarding proposal (3), we have found by experience that we cannot maintain in the Paper Currency Reserve a stock of gold of the magnitude which may be required in possible circumstances We therefore consider it desirable that a reserve of gold should be formed outside the Currency Reserve, which will supplement the stock in that Reserve for the present, and will in time take the place of that stock and relieve us of the necessity for keeping anything more than a small amount of gold in the Currency Reserve, this would be in accordance with the view* of Lord Elgin's Government that the Reserve should not be used for the general purposes of our exchange policy We consider the formation of a Special Gold Reserve to be an object of sufficient importance to justify the ear-marking of the receipts from profit on coinage as proposed

9 The steps required to carry out this measure will be the following —

(a) To direct that the profits on coinage shall cease to be credited to a Revenue Head and shall be taken to a special Debt Head of receipt

(b) To direct that the amount of the profits shall be paid in rupees into the Paper Currency Reserve, releasing therefrom an equivalent amount of gold

(c) To direct that the gold so released shall be held as a "Special Gold Reserve" apart from the ordinary Treasury Balances

(d) The current gold transactions, receipts and issues, will continue for the present to be passed through the Currency Reserve When the amount of gold in that Reserve falls below the amount required for these current transactions, there will be paid from the 'Special Gold Reserve' into the Currency Reserve the sum required to make up that amount, releasing rupees

(e) The rupees so released will be held in the "Special Gold Reserve" to be available for return to the Currency Reserve in the event of the current of trade requirements turning, at not too great an interval of time, in the contrary direction and creating again a demand for rupees If the demand continued for a long time to be for sovereigns, and if it exhausted our gold stock, we should contemplate meeting the demand in the first instance by selling the sterling investments of the Currency Department

We do not consider it necessary at present to contemplate having recourse to the last resort of melting down rupees and selling the bullion for gold

10 It remains to consider the extent to which we can give early effect to this proposal In regard to future coinage we apprehend no difficulty To

* Paragraph 7 of Despatch No 131 of 2nd June 1896 (not printed)

replace, say, 500,000*l*, only 75 lakhs of rupees are required, the silver purchased with that sum of gold will, however, be coined into over 100 lakhs, the difference being the profits on the coinage The coinage will thus itself create the funds for the payments to the Currency Reserve under (*b*) of the preceding paragraph, and we shall be in the same position in respect of general resource operations as if no coinage had been found necessary

11 In regard to the profits on the coinage which has been already undertaken, as detailed in paragraph 3 above, there is a difficulty The enormous demands on our balances caused by the famine, in the way of direct expenditure on famine relief, indirect expenditure, agricultural advances, and loans to Native States, have compelled us to use the profits on the past coinage in aid of our general balances, in order to keep our borrowing this year within the amount which there was a hope of raising on reasonable terms It will therefore be impossible for us to pay into the Currency Reserve immediately the number of rupees representing these past profits For these we shall immediately take only step (*a*) of paragraph 9, and the amount of the profit on the coinage detailed in paragraph 3 both this year and last will remain as a book credit of the Debt Head until we are in a position to make the payments into the Currency Reserve This we expect to be able to do gradually as the famine loans and advances to Native States are repaid to us The necessity for using the profits on coinage in aid of our general balances this year may be held to have arisen because of our decision to make those loans, and it will be appropriate to consider them as in a general way hypothecated for the desired payments into the Currency Reserve

12 Proposal (2) of paragraph 6 is an extension of the recommendation of the Indian Currency Committee, and the same general observations apply We think it desirable that the formation of the "Special Gold Reserve" should be hastened by any convenient addition, and we consider the annual interest on the Currency Investment an appropriate item to devote to this purpose The interest on the present investment is Rs 34,70,000

13 Proposal (3) of paragraph 6 is one that has been forced upon us by our embarrassing experience since the month of January Soon after the large gold receipts had reduced the stock of rupees in the Currency Reserve below the limit of 9½ crores, mentioned in our Despatch of December 1899, the Comptroller-General in February last proposed that we should adopt such a rule as is now proposed and convert into rupees any gold in the Reserve in excess of a certain amount He was led to make this suggestion by the very great practical difficulties that he was then encountering in administering the Treasuries and the Currency Department, and in meeting the demands made upon him for rupees in exchange for notes and for gold We were not at that time convinced that so large a coinage as the proposal involved would be necessary We hoped that the difficulties in meeting the demand for rupees would come to an end with the termination of the Burma rice season, before undertaking further coinage we desired to await the experience of the season of slack trade, and to see whether any large portion of the rupees which had been passed into general circulation in the preceding sixteen months would return to the trade centres after the cessation of our heavy famine expenditure All that we thought it necessary then to do in the direction of further coinage was to ask your Lordship to purchase 500,000*l* worth of silver, a step which we took on 5th March The difficulties however, did not disappear, but increased in intensity On 11th April the Calcutta Currency Office was obliged to refuse to give rupees in the encashment of a small amount of currency notes presented on that day, and for some weeks thereafter we were in daily fear that there might be a recurrence of that incident To prevent such a risk, we made the successive additions to the coinage set forth in paragraph 3 Pending the experience which we awaited and the consideration of the general question which we have now given to it, we have been specially careful to limit these additions to the lowest amount which, on the best calculations possible, seemed likely to enable us to meet the demand for rupees during the present jute season, or up to October next We are not without some anxiety lest events should prove that, in our desire to avoid unnecessary coinage, we have limited the amount too much the

Comptroller-General has already sounded some notes of warning, but we trust that we shall not be forced to telegraph a request for further purchases of silver in anticipation of the arrival of this Despatch. Although we may, with difficulty, meet the demands up to October with the rupee balance so much lower than the limit of complete safety, the experience of the last six or eight months has convinced us that we shall not be justified in attempting to face the coming busy cold season and the demands of the Burma rice trade with the rupee balance in the Currency Reserve lower than results from a maximum balance of gold of 7,000,000*l*. That maximum will leave a rupee balance of about 9½ crores if the circulation remains at its present level of about 30 crores. We do not, of course, propose to be bound in any way to adhere to that maximum, we propose it for the present only, unforeseen circumstances, such as a variation in the note circulation or more rapid progress in the use of sovereigns as money, may at any time in the future render it expedient to suggest a change in the amount.

14. We may mention that we have closely watched the result of the measures described in paragraph 2. The issues of gold have been considerable, but much has come back to us through the Currency Department and the Presidency Banks. The Comptroller-General estimated the amount remaining in circulation at the end of June at over a million and a quarter out of nearly two millions issued up to that time, but there are many uncertain data in the calculation. We are not yet able to say that gold has passed into use as money to any appreciable extent.

15. It is very desirable that we should feel assured of being able to meet the public demand for rupees, as indicated by the presentation of currency notes and gold. We therefore strongly press on your Lordship the expediency of sanctioning the above proposal for further coinage. If this sanction is accorded, we request that the purchases may be begun as soon as convenient after the receipt of this Despatch, being made in such instalments as may be thought best. Before the purchases are completed, we shall be gaining the experience that we desire, but cannot safely await, of the period after the cessation of the famine. If rupees do come back to the trade centres after the famine, and are presented for gold or for notes, it may be unnecessary to proceed with further purchases beyond a first instalment. On the other hand, if our stock of gold continues to increase, the purchases will have to be increased beyond the amount which now appears necessary.

16. The stock of gold in the Currency Reserve on 15th August consisted of 500,000*l* in London and nearly 8,500,000*l* in India. The London gold was released on 29th August, as intimated by telegram. The purchases required to make our proposed reduction will, therefore, on the present figures, be about 1,500,000*l*, and the additional coinage will be about 3½ crores of rupees. This with the coinage already undertaken will constitute a very large addition in the current year. But it is one which is made in response to a clear public demand, and, as Mr. Dawkins stated in paragraph 30 of the Budget Statement of last March, additions to the coinage will be as nearly automatic as is possible in the circumstances if we make them in close accordance with the demands of trade. Moreover, the possible evil effects of what may in the future turn out to be excessive additions to the coinage will, we think, be mitigated by the proposal we have made —*see* clause (*e*) of paragraph 9 above—for the retention in the "Special Gold Reserve" of rupees found to be in excess of public requirements, and presented to be exchanged for sovereigns.

17. But we do not wish our proposal to be considered as dependent on such arguments as those just stated. We make it primarily on the practical ground that we consider it necessary in order to enable us to fulfil an obligation which, though we are not, and do not propose to be, legally committed thereto, we think it desirable to undertake so long as we can do so without excessive inconvenience, namely, to pay rupees to all tenderers of gold and to give rupees in encashment of currency notes to all who prefer rupees to sovereigns.

18 Proposal (4) of paragraph 6 is for the conversion of the present Government Rupee Paper Investment of 10 crores into Sterling Securities of the Government of India Our Honourable Colleague proposes to make this change very gradually, in order to avoid causing a material depreciation in the market value of rupee paper, and a consequent injurious effect on future rupee loans Section 20 of the Paper Currency Act requires the Reserve to be invested "in Securities of the Government of India" If, as appears to be the case, this expression includes sterling as well as rupee securities of the Government of India, and the change can be made without fresh legislation, we recommend this proposal also for sanction

19 With regard to proposal (5) of paragraph 6, the following doubts are entertained in some quarters —

Firstly, doubt is felt as to the desirability of reducing, even gradually, by so large an amount as is proposed, the existing gold stock in the Paper Currency Reserve, until the stock in the new Special Gold Reserve has attained some magnitude

Secondly, it is doubted whether an increase of the Paper Currency Investment by so large an amount as from 10 to 15 crores will be generally approved If your Lordship directs us to proceed with the proposal, the first step would be to consult the Chambers of Commerce, setting before them the facts of the note circulation up to the present time, as was done in the enclosures of the Despatch No 131 of 2nd June 1896, when the last increase of the investment, from 8 to 10 crores, was proposed

Thirdly, to give effect to the proposal, legislation will be required both in respect of the increase of the investment and in respect of the power to make the investment in British Consols And doubts are felt as to the expediency of introducing, at the present time, fresh legislation to ensure the stability of a currency policy which, though it has so far been attended with gratifying success is still not entirely beyond the experimental stage, such legislation might possibly excite apprehensions both as to the confidence entertained by the Government of India in their own policy, and as to the success of the policy itself These doubts are, however, not shared by our Honourable Colleague in the Finance Department

20 Doubtless your Lordship will be able to estimate the value that is to be attached to these doubts and to advise us as to the steps that it may be desirable to take in pursuance of the object which we are all agreed in commending to your Lordship's favourable attention

We have, &c ,
(Signed) CURZON OF KEDLESTON,
&c , &c

Enclosures of Letter from the Government of India to the Secretary of State, No 302, of 6th September 1900

I —FIRST MINUTE BY THE HONOURABLE SIR EDWARD LAW

Gold Exchange Fund

Circumstances seem to render advisable an early decision on the question of the proper manner of dealing with profits derived from the coinage of rupees

This question is not only important in itself, but it also involves important subsidiary considerations

2 I think it is necessary before recording an opinion on the question of the manner in which it is desirable to deal with the profits on coinage, to consider the actual situation as regards the Currency Reserve and the accumulation of gold which it now includes and which has become an unexpected embarrassment

3 The following table shows the steady increase of gold in the Currency Reserve and the corresponding decrease in silver —

—	Silver Coin	Gold	Gold held in England under Act II of 1898
	Rs	Rs	Rs
On 15th April 1899 - - - -	14,62 20,568	3,24,97,251	—
„ 15th May 1899 - - - -	14,30,68,556	3,42,77,538	—
„ 15th June 1899 - - - -	14,71,00,255	3,44,44,964	—
„ 15th July 1899 - - - -	15,59,26 213	3,54,21,676	—
„ 15th August 1899 - - -	15,55,93,533	3,83,50,786	—
„ 15th September 1899 - - -	13,68,50,748	3,83,50,786	—
„ 15th October 1899 - - -	12,35,18,157	4,17 17,612	—
„ 15th November 1899 - -	10,81,49,860	5,56,46,119	97,50,000
„ 15th December 1899 - - -	9 03,66 872	6,33,25,197	1,12,50,000
„ 15th January 1900 - - -	6,99,10,036	7,58,68,068	1,80,00,000
„ 31st January 1900 - - -	6,77,84,653	8,14,70,551	2,25 00,000
„ 15th February 1900 - - -	5,85,16,371	9,50,70,065	2,25,00,000
„ 28th February 1900 - - -	4,93,20,678	10,08,99,396	2,25,00,000
„ 15th March 1900 - - -	4,96,11,326	10,82,66,608	2,25,00,000
„ 31st March 1900 - - -	5,23 72,122	11,25,00,187	2,25,00,000
„ 15th April 1900 - - - -	4,13,32 582	11,78,55,657	2,25,00,000
„ 30th April 1900 - - -	3,69,69 539	11,91,94,965	2,25,00,000
„ 15th May 1900 - - - -	3,66,18 336	12,39,23,178	2,25,00,000
„ 31st May 1900 - - - -	4,67,03,314	12,47,17,395	1,50,00,000
„ 7th June 1900 - - -	4,76,11,309	12,52,31,860	1,50,00,000
„ 18th June 1900* - - -	5,47,36,063	12 56,64,331	75,00,000
„ 22nd June 1900† - - - -	5,96,27,989	12,57,86,505	75 00,000
„ 30th June 1900† - - -	6,93,63,359	12,72,78,115	75,00,000
„ 7th July 1900† - - - -	6,91,11,510	12,81,72,639	75,00,000
„ 15th July 1900† - - -	7,01,27,913	12,81,85,681	75,00,000
„ 22nd July 1900† - - -	7,11,96,228	13,31,70,976	75,00,000
„ 31st July 1900† - - - -	6,99,60,523	13,03,80,786	75,00,000
„ 7th August 1900† - -	6,57,83,707	12,77,28,222	75,00,000
„ 15th August 1900† - - -	6,13,61,618	12,69,36,711	75,00,000
„ 22nd August 1900† - - -	5,79,71,935	12,72,03,794	75,00,000

* The 18th instead of the 15th June is taken so as to include the transfer of 500,000*l* of the gold held in London which took place on the 16th June

† These later figures were added after this minute was written

4 It is important to enquire into the causes which have led to this unexpectedly rapid accumulation of gold in the Currency Reserve Increase of population, economic development, and wastage of coins are all causes which must produce a steady demand for additions to the coin circulation, and though my impression is that, under ordinary circumstances, India requires relatively only a very limited circulation, I am inclined to think that, even without abnormal influences, the amount of coin in circulation had latterly become insufficient to meet ordinary requirements

5 But, besides the ordinary factors inducing demands for an increase of currency, abnormal influences have recently very seriously affected the situation The great bulk of the population is purely agricultural The agriculturist, in ordinary times, has little requirement for money in the shape of silver coin, he is himself the producer of a large proportion of the food he consumes and his other wants which must be satisfied by purchase are trifling In seasons of famine, however, the situation is changed The food consumed by the suffering agriculturist must be purchased and paid for with coin, and as credit dries up in times of distress, all his other requirements must equally be paid for in cash

6 I think that we have only to consider the vast numbers who, under ordinary circumstances, produce their own food and enjoy credit for their small purchases and whose wants can now only be supplied by cash purchases, to realise the enormous increase in the circulating medium required to meet this unusual situation I conclude, therefore, that the chief cause of the continual tenders of gold which has passed into the Currency Reserve is the large and unusual demand for rupees induced by the famine, and that the general supply of rupees being limited and proving insufficient to meet these extraordinary requirements, a drain was caused on the Currency Reserve,

where, alone, a certain number of rupees could be immediately procured by tendering gold for exchange; further, I may point out that, if my supposition as to the cause of the drain be correct, there is nothing to check it as long as famine continues to cause an unusual and increasing demand for silver coin

7 The demand for rupees, which rapidly developed in the spring months, has been very great, and the impossibility of immediately satisfying it led to serious and unpleasant consequences in April last On 11th April the officials of the Currency Department in Calcutta, who, early in the day, had been obliged to refuse to cash currency notes for three lakhs of rupees presented by an important firm in the ordinary course of business, were finally obliged to close the office before the proper time, having no further rupees in hand to meet the current requirements of the general public This failure in Calcutta was accompanied by the failure of the Treasuries in Cawnpore and elsewhere in the North-Western Provinces to cash notes, which, though not bound by the law to do (elsewhere than at the offices of the respective issue circles), they had been in the habit of doing In Calcutta much inconvenience was caused to the mercantile and manufacturing community whilst in the provinces, not only were traders and manufacturers inconvenienced, but currency notes immediately became subject to a serious discount reaching to $\frac{7}{16}$ per cent even in an important commercial centre like Cawnpore, and thus showing that the confidence of the general public in the fiduciary note currency has been unpleasantly shaken

Such a state of affairs, if not promptly remedied, would inevitably have led to further increasing demands, impossible to satisfy, for encashment of notes at all the Treasuries throughout India

8 The Government promptly took the only possible measures to meet the situation and made considerable purchases of silver for coinage The total amount of silver so purchased since the beginning of the financial year will, with the 500,000*l* worth bought in March, result in a total addition of above 4½[*] crores of rupees to the circulating silver currency The purchase, transport from Europe, and coinage of silver unfortunately, however, take considerable time, and it was evident that if the demand for rupeees, in exchange for tendered gold, continued unabated, requirements would continue to exceed the supply, pending the coinage of the new rupees, it was, therefore, reluctantly determined to temporarily check the importation and tender of gold, by deferring payments for gold bullion tendered at the mints, for 60 days after acceptance By these measures and by the energy of Mr Cox, the Comptroller-General, in arranging for the rapid transfer of balances from one Treasury to another, the crisis was passed without more serious results than I have mentioned, but it is imperative to take steps to prevent the recurrence of such a situation, and it must be admitted that all the measures enumerated as recently taken were more or less open to objection

9 The rapid increase of the rupee coinage, without some definite guiding principle regulating the limits of increase is to be deprecated as likely to induce whatever dangers are to be feared from a subsequent redundancy of rupees The checking of the importation of gold, even though temporary, when suddenly decided on, must prejudice the legitimate operations of private importers, and, in any case, measures tending to impede the free importation of gold are directly opposed to the wise general policy encouraging such importation Even abnormal transfers of Treasury balances are objectionable as involving considerable expense and upsetting the carefully considered plans for the manipulation of these balances

10 It is evident that had the Currency Reserve not been overweighted by the accumulation of gold, the sudden demand for a large number of rupees could have been sufficiently met to give time for further coinage,

[*] This includes the outturn (about 351 lakhs) from 1,500,000*l* worth of silver purchased in England in quantities of half a million's worth at a time, and also the outturn (about 69 lakhs) from the Native State coin and silver bullion borrowed from Gwalior and to be repaid next year at its value as bullion It does not include the outturn from the last purchase (of 400,000*l* worth) in England, or from the purchases in India in 1899–1900

without incurring all the difficulties which have been experienced during the last few months, and it would therefore seem necessary to take measures for reducing the proportion of gold now held in the Reserve The question of the advisability of taking such measures involves, however, other important considerations

11 The recorded opinion of the Currency Commission is unanimous as regards the necessity of a certain gold reserve being held for exchange purposes No very definite decisions appear, however, to have been arrived at as to the manner of obtaining the gold to form the desired reserve, the conditions under which the reserve fund should be held, or the amount of gold which it is desirable to hold in such a fund Circumstances, which I have already described in these notes, had however, already led to a commencement of accumulation of gold in the Currency Reserve at the date when the report of the Currency Commission was published, and this accumulation has, under the influence of extraordinary famine requirements for rupees, since rapidly increased, until on 15th May last we had in the Currency Reserve 9¾ millions sterling of gold, equal to a proportion of exactly ¾ths of the total stock of bullion and coin held as security for the note issue By the 18th June the situation had been improved by the release of one million of the gold held in London, and the gold then held in the Currency Reserve was 8,877,622*l*, or over two-thirds of the whole coin and bullion reserve The stock of gold we now hold may thus be taken at nine millions sterling

12 The question of the amount of gold which it may be safe to hold in the Currency Reserve was discussed last November, when the Comptroller-General pointed out very clearly the dangers which might ensue from the accumulation of too large a proportion At that date the Comptroller-General expressed the opinion that more than 5,000,000*l* could not be held in the reserve in safety, and the Honourable Mr Dawkins, in a note dated 1st December 1899, indicated seven to eight millions as an amount which might be admitted under favourable circumstances Any decision was, however, reserved until experience should have thrown more light on the subject, but I venture to submit that it has now become necessary to take a decision on this point, in conjunction with that of the proper manner of dealing with coinage profits

13 And first, I would call attention to certain circumstances and conditions in connection with the accumulation of the existing stock of gold in the Currency Reserve The sole object for which the Currency Reserve was originally constituted was to provide the necessary security for the encashment of notes, on presentation, and there was certainly no idea of utilising the funds so held for exchange or any other purpose not directly connected with security for the note issue The connection which has now arisen between the Currency Reserve and the maintenance of exchange appears to me to have come about in a somewhat fortuitous manner It is of course evident that it is unnecessary to hold the whole of the funds constituting the security for a paper currency in the coin in which the notes issued are payable on demand, and it has, therefore, been admitted that a certain proportion of such funds may be invested in some readily convertible security The amount thus invested by the Government of India has been varied from time to time, in proportion to the amount of paper currency circulating in the hands of the public, and now stands at 10 crores The decision fixing the limit of 10 crores was taken after considerable discussion in 1896, and even if it be admitted that this was the maximum prudent limit of safety at that date, circumstances have since shown that it is a limit which can now be safely exceeded It has been exceeded by the amount of the stock of gold now existing in the Currency Reserve

14 The fact is that, whereas it is essential that the Currency Reserve shall provide a sufficiency of the class of coin which the public have the right to demand in exchange for notes which they may present for encashment, the existence of gold in the reserve, although it has been declared legal tender, cannot satisfy the legitimate requirements of the public as regards such demands Owing to the smallness of the sums representing an enormous

proportion of commercial transactions, and the very conservative habits of the people no one at present requires gold as a circulating medium in India, and consequently the existing stock, as far as currency purposes are concerned, is of no immediate practical value in case of sudden demands for the encashment of notes The only way in which it represents suitable security for the paper currency is that it is convertible by sale into silver bullion, from which bullion rupees may be coined Hence under existing conditions the gold in the Currency Reserve can only be considered as an investment subject to the same conditions as the 10 crores held in Government securities, and in permitting the present large gold investment the limit of safety for the conversion of notes into the circulating medium required by the people has been passed, and serious difficulties have been encountered, whilst we are far from having acquired the stock of gold requisite for exchange purposes

15 As a result of these considerations it must, I think, be admitted that the amount of gold which can safely be held in the Currency Reserve must for the present be regulated by the same rules as would guide the consideration of the amount by which the proportion invested in Government securities could be safely increased Pending an increase in the note circulation (which is, I think, to be desired, and which can, I believe, be attained) or some other change in existing conditions, I am of opinion that a maximum sum of approximately 7,000,000*l* in gold may now be safely held in the Currency Reserve I should not, however, wish to be bound absolutely to this figure, which is necessarily an arbitrary one, and particularly I should not wish any public announcement to be made which might seem to tie the hands of the Government in the event of circumstances, at present unforeseen, rendering its reduction hereafter desirable

16 If it be accepted that 7,000,000*l* is the maximum sum which, under existing conditions, can be held in gold in the Currency Reserve, in addition to the 10 crores already invested, it is evident that such assistance as can be obtained from manipulating the reserve will fail to provide the sum in gold which it is considered advisable to hold in connection with the maintenance of a steady exchange So far no authority has ventured to name a definite sum which should suffice for this purpose, but there is a general consensus of opinion, in which I fully concur, that a very considerable sum is required The most ready way of obtaining such a large sum is by gold borrowings, but the opinion of the Currency Commission was strongly hostile to such a course, and the question, therefore, remains unanswered How is the necessary stock of gold to be obtained ?

17 I do not presume to offer any cut and dry solution of this difficult problem, but I venture to offer certain suggestions which, if adopted, would, I believe, go a considerable way towards meeting the difficulty I propose to create a special "Gold Exchange Fund" independent of, but in case of *extraordinary* requirements for exchange purposes to be used in conjunction with, the gold resources of the Currency Reserve The foundation of this fund would be the profit to be realised by converting into rupees the excess above 7,000,000*l* now held in gold in the Currency Reserve The total sum in gold held in this reserve being to-day about nine millions sterling, the profit on the proposed operation would be about 700,000*l*

18 To the 700,000*l* thus provided should be added the profits on coinage since the commencement of the financial year, amounting to 1,000 000*l* The money representing these profits has, for the moment, been employed to meet demands in connection with the famine, and particularly to enable Government to make large loans and advances to Native States, which include a loan of two crores to the Nizam, but, though profits on coinage form part of our general resources, I am in full accord with the Currency Commission in considering that they should not be treated as revenue, but should be set aside for currency and exchange requirements, and the 1,000,000*l* which has now been temporarily employed to meet pressing demands should be paid into the "Gold Exchange Fund" as reimbursements of the loans are effected

I would thus open my new reserve fund with a combined cash and creditor balance amounting to nearly $1\frac{3}{4}$ millions sterling, whilst 7,000,000*l* would still be held in gold in the Currency Reserve

19 But this initial reserve is evidently too small, and measures should be taken to strengthen it In the first place the fund should be steadily increased by the addition of profits on future coinage It is impossible to say what annual additions to the rupee currency may be required to meet the demands induced by economic development (in which I expect that railway development will take a large part, if we are able, as I hope we may be, to give some impetus to railway development), and by wastage, but from such data as I have been able to obtain, I think it quite likely that the demands on these accounts will reach two crores of rupees per annum, on which the profits to be passed to the Gold Coinage Reserve would be approximately 475,000*l* per annum

20 I now pass to the consideration of further measures which may, and should, I think, be taken to provide for additional automatic increase of the stock of gold to be held in the Gold Exchange Reserve I have already pointed out that the accumulation of gold in the Currency Reserve was due to fortuitous circumstances and that although up to a certain point it served a most useful purpose, it has nevertheless been proved that the stock of gold which can be held in the reserve can never become adequate to meet the contingencies of exchange requirements, while it may be productive under certain circumstances of considerable difficulties, and I have shown that there is no practical difference under existing conditions between investments in gold or in interest bearing securities, as regards the objects for which the Currency Reserve was created by law

21 The fact is that when the funds in the Currency Reserve were diverted from their original purpose and taken as providing security for the maintenance of a steady exchange, a radical and perhaps uncontemplated change was introduced, and at the risk of being considered somewhat conservative I would venture to suggest that it would be more prudent to revert, as far as possible, to original conditions as regards the treatment of these funds The original conditions are that all funds in the Currency Reserve must primarily be held with the object and for the purpose of securing the prompt conversion of notes into such coin as the public may legitimately require The reduction of the stock of gold in the Currency Reserve by the conversion into rupees of the excess above 7,000,000*l* will, I hope, restore the condition that the reserve should suffice to meet all legitimate requirements for the encashment of notes, but I think that we should go a step further in the same direction, and as far as possible, follow the old rule of investing such portion of the Reserve as is not required to be held in coin for the conversion of notes I would propose then to invest at least 5,000,000*l* of the 7,000,000*l*, which I consider might now be held in gold independently of the necessity of providing for the *immediate* exchange of notes into rupee coins The investment should, of course, be made gradually, though at as early a date as may be permitted by practical considerations in connection with all classes of investment and proper care to avoid undue depletion of our stock of gold metal

22 I should like to see the total invested securities increased to the equivalent of 12,000,000*l*, and I think that there would be no objection and even a certain advantage in retaining in gold the uninvested surplus of the 7,000,000*l* which we think may continue to be held otherwise than in rupees, without affecting our capability to give rupees for notes when required

23 The next question is the form in which the proposed investment may best be made I would propose to invest the sum taken from the 7,000,000*l*, now in gold, in British Government Funds I would further propose to gradually convert the present investments in rupee paper into Indian Government gold securities, and when these operations were completed we should have about 12,000,000*l* in readily saleable gold securities bearing interest at an average rate of about 3 per cent

24 The interest on 12,000,000*l* at 3 per cent would yield annually 360,000*l*, and I have no hesitation in saying that, as long as funds are required for currency and exchange purposes, this annual sum should be devoted to increasing the stock of gold in the Gold Exchange Fund In five years, allowing for compound interest, we could add from this source about 1,960,000*l* to our stock of gold, and in 10 years about 4,250,000*l*

25 The net result of my various proposals would be that including gold to be immediately placed in the Gold Exchange Fund, gold to be paid into that fund on the reimbursement of famine loans, gold now existing and to be maintained in the Currency Reserve, profits from future coinage, and accumulation of interest on gold investments belonging to the Currency Reserve, we should, five years hence, hold a stock of gold of about 8,500,000*l*., and in another five years we should have added nearly 4,500,000*l*. more. Further, in case of necessity, we should be able to replenish this stock by the profit on the sale and conversion into rupees of our readily saleable gold investments, amounting to 12,000,000*l*., whilst our resources for giving rupees for notes from the Currency Reserve would remain intact.

26 I do not lose sight of the fact that, however readily saleable our gold investments, they are not quite the same thing as actual gold, but holding such a sum as I contemplate in the actual metal, there would, under all conceivable circumstances, be plenty of time to effect gradual sales of the securities for the replenishment of the stock of gold, should the necessity arise.

27 In my calculations of the stock of gold which it may be possible to accumulate within a given period, I have taken no account of the possibility of a continued influx of gold resulting from such heavy demands for rupees as we have recently experienced, but I have traced the causes of these demands and stated my reasons for considering them as abnormal and once the amount of circulation is brought up to the level of normal requirements and the pressure caused by famine requirements is relieved, I believe that a steady annual addition to our rupee circulation (which I have tentatively estimated at two crores) will prevent the recurrence of undesirable pressure and the resulting spasmodic importation of gold.

28 There remains for consideration the question of proper manipulation of the funds which may be accumulated for the purpose of meeting currency requirements and regulating exchange.

29 As regards currency requirements, I do not think that there is any difficulty in arriving at a decision. The resources of the Currency Reserve must in the first place be kept equal to providing for the encashment of notes on presentation, in rupees, and I have proposed for this purpose to hold in silver coin any excess in that reserve above the combined amount of the 10 crores now invested, together with the 7,000,000*l* which I propose to hold in gold and gold securities. Any excess of gold above the sum indicated should be immediately converted into rupees by the purchase and coinage of silver bullion. This general rule will apply as long as the demand is for rupees, but the converse case may arise, it may happen that for the legitimate purposes of trade there may be demands for gold for which rupees may be offered, and that unless this demand for gold is promptly met within reasonable limits, an undesirable fall in exchange would result. Such demands may temporarily be heavy, though I do not think that they are likely to be prolonged. To meet them it will be necessary to give gold out of the Currency Reserve and replace it by the nominal equivalent in rupees but the amount of gold in the Currency Reserve will be very limited and may easily prove insufficient to meet legitimate requirements, and it will then be necessary to fall back on the stock in the Gold Exchange Fund.

30 Should this necessity arise, I would, in the first instance, retain in the Gold Exchange Fund the rupees which I had been obliged to accept in exchange for gold, in the hope that the demand for gold might prove temporary, and that I might, at not too great an interval of time, be able to once more exchange these rupees for gold to meet demands caused by a contrary current of trade requirements. I would defer as long as possible the expedient, which I look upon as a last resource, of melting down rupees and selling the bullion for gold. Before being driven to such extremities as the adoption of this measure would indicate, we should fall back upon the resources offered by the gold securities held in the Currency Reserve. These securities could, as occasion might arise, be transferred to the Gold Exchange Fund, their place in the Currency Reserve being taken by rupees drawn from the former fund, and when thus transferred they might gradually

be sold to meet requirements I should point out that under the circumstances referred to, the transfer of rupees to the Currency Reserve, in replacement of investments withdrawn from that fund, could not cause any practical difference in the constitution of this reserve, for although the rupees transferred to the Currency Reserve would not afford any provision for the encashment of notes in the form of currency at the time in demand, the presence of the gold investments belonging to the Currency Reserve would equally fail to provide for the same demand

31 It may be objected to my proposals that the result of their adoption would be, at the outset, to diminish the stock of gold we now hold, and that it would take some time before the various measures I have suggested would make good that loss

I think the practical answer to that objection is that practical necessity has already obliged us, without any theorising, to diminish the stock of gold by drawing on it for the purchase of silver to be coined into rupees, and that no definite proposals have hitherto been made for providing for its automatic increase without renewing the difficulties we have experienced through an inconvenient accumulation in the Currency Reserve The system I have proposed will not reduce by one sovereign the amount of gold which, whilst depending, as we do now, solely on the resources of the Currency Reserve for its retention, we can hold with safety It does provide for the future automatic increase of our stock of gold, though I admit at a slower rate than is desirable, but half a loaf is better than no bread, and if we adhere to the resolution of declining to borrow to increase our gold stock, I fear that it is impossible to devise any system by which we could attain our desired ends more rapidly

32 I now conclude and in so doing I venture to repeat that it has been generally admitted that we should hold a considerable stock of gold for exchange purposes—that no proposal has been authoritatively put forward for providing this stock of gold without sterling borrowing—that the expedient of accumulation of gold in the Currency Reserve has passed the limits of safety and has brought us into difficulties—that it is imperative to prevent the recurrence of such difficulties—and at the same time it is necessary to decide on the means to be adopted for acquiring the stock of gold required to ensure the success of our general currency policy

(Signed) E FG LAW,

28th June 1900

II

Minute by His Excellency the Viceroy

The main proposal of Sir E Law is the creation of a new Gold Exchange Fund, the objects of which are clearly described, and the methods of constituting which appear to be the following —

(1) It is proposed to set aside the recent and all future profits derived from the coinage of silver, to be kept in gold as the nucleus of this fund—to be available for the withdrawal of rupees from circulation and to prevent redundancy of coin, should this be found necessary at a later date There are some who decline to believe that such a redundancy is at all likely to occur, and who say that however fast we may coin our rupees, we shall find a use for them I understand Sir E Law, however, not to share this confidence The initial objection may be raised that by whatever sum is thus withdrawn from our general balances, we shall increase the amount of our annual loan (which cannot, I imagine, be denied), and it may be said that this is doubtful policy, seeing that we always have to pay more for our investments than we receive from our borrowings Notwithstanding this objection, the scheme now put forward, which was first suggested by the Currency Committee (paragraph 60), may be justified if its object be to maintain our stock of gold, and thereby to ensure the success of the currency policy upon which we have embarked Sir E Law proposes to make a start with the one

million sterling of profits which has already accrued from our very heavy coinage in the present year He speaks of this million as having already been employed, and this I understand to be the case But if this be so, and if we have to pay the equivalent into the new Gold Exchange Fund, will it not mean an addition to the amount that we shall have to raise by loan at our next borrowing?

(2) From paragraphs 24 and 25 of Sir E Law's minute I gather that a further source of supply will be "the accumulation of interest on "gold investments belonging to the Currency Reserve" Presumably this also involves a subtraction from our ordinary resources and an addition to the amount of our annual loan—a sacrifice which, as in the former case, may be held to be justified by the ulterior objects in view

(3) The third constituent of the new fund is to be the profit derived by taking and converting into rupees any excess that there may be over a maximum of 7,000,000*l* in the gold stock maintained in our Currency Reserve The excess is at present 2,000,000*l*, and the profit would be about 700,000*l*

All these are proposals that strike me as *adaptations*, adjustments, or developments of our existing currency policy, which are intended to invest it with greater strength, and which may fairly be submitted to the Secretary of State

2 But there are two more proposals which Honourable Member advances for the still further replenishment of his fund —

(4) The first of these is to take 5,000,000*l* out of the maximum of 7,000,000*l* to which we shall, as above described, have reduced the stock of gold in the Currency Reserve, and to invest it by gradual degrees in British Government Funds, *i e*, in Consols I confess that I do not quite understand this proposal, which seems to me to take away with one hand what has been conferred with the other If we have just decided that 7,000,000*l* ought to be kept in gold in the Currency Reserve, why propose to reduce it simultaneously to 2,000,000*l*? Honourable Member foresees this objection, for he says in paragraph 31 that the result of his proposals will be at the start to diminish the stock of gold which we now hold, and that it will be some time before that loss is made up But this result and this risk seem to me to be inconsistent with what I understand to be the main object of his policy, namely, the accumulation of a strong gold reserve By the proposals which I have marked (1), (2), and (3) he has been steadily accumulating this stock of gold, by (4) it seems to me that he proposes to reduce it

3 Now the 5,000,000*l* that is thus subtracted from the Currency Reserve is, I understand, to be added to our general currency investment, which would thereby be raised from 10 crores to 17½ crores (7½ crores = 5,000,000*l*) I would ask, can we do this without legislation? Does Honourable Member contemplate legislation? Has he considered whether the Secretary of State will sanction such legislation and what public opinion will say about it in this country? Moreover, shall we be wise in raising our currency investment to so high a figure in relation to our existing circulation of currency notes? In our Despatch of 18th January 1900 we contemplated "advancing "gradually to a situation in which (instead of having 17 crores of coin as "against 10 crores of securities) one-half of the Paper Currency Reserve "should be in coin and one-half in securities" But the new proposal would appear to invert the proportions and to involve a complete change of policy

Again I would ask, if it is now considered desirable to increase the currency investment by 5,000,000*l*, is it necessary to take this sum from that particular source? Honourable Member admits that the process is intended to be gradual But why should he not trust to his other gradual processes, already enumerated, *e g*, profit on coinage, &c? Will they not in time give him the sum that he desires?

4.—(5) Finally, Sir E. Law proposes (paragraph 23) "to gradually "convert the present investments in rupee paper into Indian Government "Gold' Securities" He does not give any other reason for this than the desire to increase the sum total of his saleable gold securities.

But are not our investments in rupee paper very useful, and very easily convertible into rupees in times when, as lately, we have had a great demand for the encashment of currency notes?

I hazard these doubts about (4) and (5) not because I presume to set up my financial authority against that of Honourable Member, but for two reasons: firstly, I am not convinced that they are necessary for the success of his own scheme; secondly, I have a natural suspicion of anything that may tend, in the present early stage of our currency policy, to cause alarm. Most things that the Government of India do in the region of finance are misrepresented; many are misunderstood. We are constantly accused of having no confidence in our policy and of not pursuing it with consistency.

I think that we should be very careful about taking any steps that may seem to give ground for these charges. Events seem on the whole (in spite of the peculiarly unpropitious circumstances arising out of famine and the enormous demand for rupees that we have lately experienced) to be justifying as well as favouring our big currency venture of last year. I think that our motto should be *Festina lente*.

8th July 1900. (Signed) CURZON OF KEDLESTON.

III

SECOND MINUTE BY THE HONOURABLE SIR EDWARD LAW.

It has been suggested that it might prove a convenience if I were to endeavour to give the explanations asked for in His Excellency's minute dated 8th July 1900. I am very happy to accept this suggestion.

2. In His Excellency's minute, paragraph 1 (1), the view that we pay more for our investments than we receive from our borrowings appears to be fully accepted as exact. I think, however, that with regard to this statement, which may be in the main correct, an important qualification must be borne in mind. The general truth of the proposition, as far as my proposals are concerned, depends on the assumption that the price of future investments made in connection with the proposed Gold Exchange Fund will always be higher than the price which at about the same time we shall be obliged to pay for our loans. I should hope that this assumption will by no means always prove correct, and further, even when the assumed loss is suffered, the difference at approximately corresponding dates, between the prices of investments and new loans should surely be so trifling that it need not be considered as a serious objection.

3. His Excellency in concluding paragraph 1 (1) asks if it will not be necessary to borrow the million which I speak of as forming part of the initial capital in the proposed Gold Exchange Fund. It was not my intention to propose borrowing for this purpose. In paragraph 18 of my former minute I spoke of the new gold fund as to be opened with a combined cash and creditor balance of $1\frac{3}{4}$ millions sterling, my idea being that we might await the gradual reimbursement of the famine loans and advances to Native States to change the creditor portion of the balance into much to be desired cash.

4. In paragraph 1 (2) the presumption that the accumulation of interest on gold investments, forming part of the Currency Reserve, would involve a subtraction from our ordinary resources, is correct.

5. In paragraph 2 His Excellency asks "if we have just decided that "7,000,000*l.* ought to be kept in gold in the Currency Reserve, why propose "to reduce it simultaneously to 2,000,000*l.*?"

6. I have apparently failed to make myself sufficiently clear on this point. I do not hold we *ought* to keep 7,000,000*l.* in the Currency Reserve; I have indicated 7,000,000*l.* as the maximum sum which the general purposes of

the Reserve would permit us to hold with safety Further in paragraph 26 of my minute of 28th June, I have pointed out that gold securities may for practical purposes be considered as the equivalent of actual gold, since we have only to sell the securities, by telegraph if necessary, to realise the equivalent in actual metal

7 In paragraph 3 His Excellency asks if our currency investment can be increased without legislation ?

It cannot, but I am prepared to recommend legislation for this purpose, and independently of the particular question we are now treating, I hold that the experience of this year has proved that we can lock up a proportion of our Currency Reserve equal to the sum of the present investment of 10 crores together with 7,000,000*l* in gold We are at the present moment holding considerably more than this combined sum in a form which does not permit of its immediate conversion into rupees

8 His Excellency in paragraph 3 recalls that in the despatch of 18th January 1900, it was contemplated to advance gradually to a situation in which one-half of the Paper Currency Reserve should be in coin and one-half in securities It is true that I proposed to go beyond this proportion, but not so very much The recent average circulation of notes has been approximately 30 crores (I have elsewhere stated that I have considerable hopes of materially increasing this figure) and the half of this sum for investment would be 15 crores I propose to invest 17½ crores, but I have given what I believe to be sufficient reasons for considering this addition justified by recent experience, and, in any case, I propose to make the investment gradually

9 In the same paragraph his Excellency asks if gradual processes will not in time give the desired sum in investments

Undoubtedly they would, if no mishap occurred during the slow process of increase, but the quicker we can secure our accumulation of gold and gold securities the quicker will our position be assured, and I have already given my reasons for apprehending no danger from the acceleration of the process by the measures I have proposed

10 In paragraph 4 His Excellency observes that I have given no reason for the proposal to gradually convert the present investments in rupee paper into Indian Government gold securities

I regret the omission, to make things clear, the reason should have been given in my minute under discussion, but I intended to return to the subject when dealing (elsewhere) with the general questions connected with the circulation of notes, because I consider my proposal to be one of considerable importance as regards the general purposes of the Currency Reserve, and I am anxious to press it from that point of view and independently of any proposals connected with our exchange policy

11 When the system of investing a certain portion of the Currency Reserve was inaugurated, exchange difficulties had not made themselves appreciably felt, and since the investment was intended to be convertible into rupees, in case of necessity, it was natural that it should be made in rupee paper To-day the situation is different, the market value and ready convertibility of rupee paper has been prejudicially influenced by exchange difficulties, there is practically no market out of India for rupee paper, and in India the market is so small and so easily depressed that were we suddenly called upon to realise our existing investments, we should, I fear, most seriously depress their value and create something like a panic

12 I may point out that investments in gold securities cannot be prejudicially influenced by exchange fluctuations When it is desired to realise gold securities they can, in the large market which they command, be immediately sold for gold, which can be used if that metal is required, and if rupees should be required the gold realised can purchase silver bullion to be coined with profit into rupees

13 For these reasons, which I am confident would be perfectly accepted by the financial world, I strongly desire, as a measure of safety, to see our rupee investments converted into gold securities as rapidly as the exercise

of most necessary caution not to unduly disturb the market for rupee paper, may permit This proposal I should wish to put forward on its own merits and quite independently of any indirect connection with the exchange question

14 I trust that the consideration of these explanations will make it clear that I am not proposing any new departure, but solely seeking to consolidate our position on the lines of policy already adopted, and to accelerate the accumulation of the stock of gold on which the assured success of that policy mainly depends

15 It is not sufficient to adopt a policy in theory The practical working of the adopted policy must be carefully watched, and whilst holding fast to the general principles we have accepted, we must be ever ready to adopt such minor measures or modifications in detail of practice as experience may show to be necessary to assure the success of the policy we have accepted

27th July 1900 (Signed) E FG Law

IV

Third Minute by the Honourable Sir Edward Law.

It has been suggested that I should endeavour to summarise, with such explanations as may seem necessary, the conclusions arrived at on the questions treated in this file as a result of their discussion in the Executive Council

In the first place, the question was discussed as to what should be understood and accepted as regards the proposals in paragraphs 21, 22 and 23 of my notes for the gradual investment in gold securities of sums belonging to the Currency Reserve and now held in rupee paper or in gold

As regards the conversion into Indian Government Sterling Bonds of the 10 crores now held in rupee paper, I have pointed out, and it was accepted, that this conversion must be very gradual and would take a long time to effect It is evident that if the issue of a loan of three crores in rupee paper causes, as was shown by the experience of the recent loan, a strain on the resources of the limited market for this class of security, the said market would be easily glutted by the attempted sale of any large quantity of these securities and the result would be highly prejudicial to our general financial interests, both as regards the depreciation of our stock and as regards compromising the success of further issues of similar securities If general conditions were to remain as at present, I do not think that it would be possible, with due regard to these interests, to sell more than one crore of rupee paper in a year, so that it might take 10 years to complete the proposed conversion, but we may fairly hope that it will not be long before the general popularity of this class of security may, by judicious measures, be sufficiently improved to offer a stronger market, and consequent increased facility in advantageously disposing of stock

On this question I may perhaps point out that the greater the recognised difficulty in realising our present investment, the less suitable must it be recognised to be for the particular purpose for which it is held, namely, the guaranteeing of our issue of notes

As regards the investment of a portion of the gold now held in the Currency Reserve, in British Government Funds, the process of investment must also be comparatively slow, or the investment would be made under disadvantageous conditions, in consequence of the rapid rise in price which would result from the hurried purchase of large blocks of stock

On the further question of the total proportion of the Currency Reserve Funds which might be prudently invested, the result of discussion showed a general consensus of opinion that it would not be advisable to propose, for the present, the investment of a larger proportion than 50 per cent, for though we have been struggling without accident, since the end of April, with a proportion of rupees in our Currency Reserve varying from Rs 3,66,18,000 or 12 9 per cent minimum to Rs 7,04,28,000 or 23 0 per cent maximum, the formal decision to limit our cash holdings to even one third of our liabilities might appear disquieting to the commercial community

I may here mention that on the last occasion when the mercantile and banking community was consulted as to the increase of the investment of Currency Reserve Funds, Lord Elgin's Government, in their despatch of 2nd June 1896, summed up the opinions received as follows "We con-"sulted the Presidency Banks and the Chambers of Commerce in this "country on the subject The replies show that none of these bodies calls "in question the proposal to make this increase in the investment on the "ground that it would diminish the security for the convertibility of the "currency note, the mercantile and banking opinion is practically unani-"mous that in increasing the investment by two crores there is no risk "whatever so far as the convertibility of the note is concerned"

The despatch continued with further observations which, I think, I should also quote as being very pertinent to the present proposals and as perfectly expressing my own views on an important side of the general question The Government of India wrote "We believe that strong "objection would be taken to our manipulating the currency reserve with "the intention of producing any effect upon the exchange value of the rupee "For the same reason we are inclined to doubt whether, when a measure "affecting the currency reserve is proposed from the point of view of paper "currency reserve, pure and simple, we ought to allow ourselves to be "influenced by the possible effect which a measure, desirable from a "Currency Reserve point of view, may have upon the exchange value of the "rupee"

The general question of the advisability of legislation affecting our exchange policy was discussed in Council, and the view was, I think, unanimously accepted that such legislation should, if possible, be avoided I venture, however, to point out that though legislation would be necessary for increasing our Currency Reserve Investments, such legislation might, and I think should, be undertaken quite independently of any question which we may have to consider in connection with our exchange policy

I hold very strongly to the view expressed in the passages which I have quoted above, and though I must accept that, as a last resource, we must, in case of exchange difficulties, make the fullest use of whatever gold or gold securities we may hold in the Currency Reserve, this is a last resource, and, when the Gold Exchange Fund which I have proposed is established, it is on the resources of that fund that we must primarily and publicly rely to meet ordinary requirements for exchange purposes

(Signed) E FG Law

23rd August 1900

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No 232, dated 13th December 1900

MY LORD,

I HAVE considered in Council your Excellency's letter dated the 6th September, No 302, on the subject of the formation of a special Gold Reserve, on a basis sufficient to ensure the success of the policy adopted by the Government of India, with the view of placing its currency system on the gold standard

2 I must begin by expressing my high appreciation of the ability with which Sir Edward Law has treated this important subject, and of the care shown in dealing with various questions of detail connected with it

3 Of the advantage of maintaining a special Gold Reserve I am fully convinced, and, in order to mark the primary object of its formation, it appears to me that the title to be assigned to it should be the Gold Standard Reserve

4 The first proposal made by Sir Edward Law, for the purpose of constituting such a Reserve, which receives the unanimous support of your Government, is that the profits on the coinage of rupees should not be credited to the Revenue, or held as a portion of the ordinary balance of the Government of India, but should be kept in gold (an expression in which he appears to include securities saleable for gold) as a special reserve entirely apart from the Paper Currency Reserve and the ordinary Treasury Balances

5 This proposal is in harmony with the 60th paragraph of the Report of the Indian Currency Committee, and I fully concur in the principle which it enunciates As a matter of account, however, it appears to me that it will be desirable that the profit made by the coinage of rupees should, as in the case of all similar operations, continue to be shown as Revenue under the head of Mint, while on the side of Expenditure will be exhibited the charges in connection with the coinage, and also the payment of the net profit to the Gold Standard Reserve The latter sum will thus be credited below the line under the head of Deposits or Remittances, and, when the remittance to England is effected, it will be debited under the corresponding head In a subsidiary account will be shown the complete transactions in connection with that Reserve

6 In order to ensure the due application of the gain made through the coinage, it is advisable that your Government should once in three months make up an account of the receipts and charges, and should forthwith remit the net profit to be held by the Secretary of State in this country

7 It does not appear necessary to specify precisely in what gold securities the reserve shall be invested, whether in Consols or India Stock, or in any other manner This will be at the discretion of the Secretary of State in Council from time to time, and the result will be periodically reported to the Government of India, and published in its Gazette

8 While, however, I am in favour of the institution of the Gold Standard Reserve, with effect from the beginning of the current year, I do not overlook the difficulty mentioned in the 11th paragraph of your letter, arising from the circumstance that the receipts from the coinage of rupees in 1900–01, having come into your balances, have already been applied in the relief of famine, or in loans to Native States, and that they could not be at once invested for the Gold Standard Reserve without resort to further borrowing I therefore authorise you to remit the net profit which you have made this year as you may be able to provide the money out of surplus receipts in this and subsequent years This remittance may be effected either in the shape of gold, or, when there is a sufficient demand for bills on India, by agreeing to meet them in excess of the amount required for the other Home disbursements

9 I trust, however, that this special arrangement will not be needed for future years, and that from the 1st April 1901 the regular appropriation of the funds applicable to the Gold Standard Reserve will be rigidly maintained

10 The second proposal, in which also your Government concurs, is to add to the special reserve the annual interest on the investment of the Paper Currency Reserve, amounting at present to Rs 34,70,000 I must point out, however, that the two reserves will be quite distinct, with different objects, and there appears to me to be no special reason why the interest on the securities of the one reserve should be assigned to the transactions of the other I am of opinion, therefore, that, for the present, it will be better to adhere to the existing system

11 In the third recommendation, namely, to use in future for the purchase of silver for coinage into rupees any excess over 7,000,000*l* in the stock of gold in the Paper Currency Department, you also fully concur The circumstances of the past year have, however, been exceptional in various ways, and it does not appear practicable to base on them any final decision as to the amount of gold which it is prudent to hold in the Currency Reserve, but I agree that that amount may for the present be taken as the maximum which it is desirable to retain, though no pledge should be given to the public on this point Any excess over 7,000,000*l* would, in ordinary course, be spent in the purchase of silver for coinage into rupees, and it would probably be desirable that, even if there were no such excess, the Secretary of State should hold in London a portion of the gold, in order that it may be used in the purchase of silver, when the latter can be obtained at a moderate price

12 The other proposals made by Sir Edward Law refer to the investment of the Reserves No 4, suggesting the gradual transfer of the Rupee Securities of the Paper Currency Department into India Sterling Securities,

is recommended by your Government if it can be effected without fresh legislation, but I am advised that this is not the case No 5, to increase the amount of the Paper Currency Investment, to make the additional investment in British Consols, and to obtain the funds by reducing the stock of gold in the Currency Reserve, is, as you observe, open to the objection that fresh legislation could not be avoided Even, however, apart from this consideration, I feel that there are serious reasons against the adoption of the measures proposed, and I am unable to sanction them

13 In the 15th paragraph of your letter you pressed on me the necessity for a further purchase of silver, and you have by telegraph added other demands

The following is a statement of the amount bought during this calendar year —

—	Amount	Average Price per oz Including all Charges
	£	d
1st instalment, 6th to 24th March - - - -	500,000	27 99
2nd instalment, 23rd April to 4th May - - -	500 000	27 77
3rd instalment, 11th to 28th May - - - -	500,000	27 84
4th instalment, 12th to 22nd June - - - -	400,000	28 02
5th instalment, 5th to 17th September - - - -	500,000	29 19
6th instalment, 27th September to 8th October - - -	500,000	29 77
7th instalment, 19th to 26th October - - - -	500,000	
8th instalment, 29th November to - - - -	500 000	
	3,900,000	

This is in addition to the amount obtained by your Government in India so that altogether the number of rupees by which the circulation will have been increased must considerably exceed nine crores I have in each instance acted on your application, feeling assured that Your Excellency would not desire to enhance the volume of rupees in circulation beyond what seemed absolutely necessary

I have, &c,
(Signed) GEORGE HAMILTON

Telegram from VICEROY, dated 26th March 1901

In view of present low price of Consols, we suggest your consideration of advisability of investing, on behalf of Gold Reserve Fund, say half a million sterling If you make the investment we can ship another half a million sterling at once

SECRETARY OF STATE to VICEROY, dated 29th March 1901

Your telegram 26th Send gold as proposed Mode of investment under consideration

Telegram from VICEROY, dated 10th April 1901

Your telegram of 29th March Japanese yens, weighing 131,379 ounces, actual value 502,224*l*, will be shipped by "Borneo," leaving Calcutta 16th April

Telegram from VICEROY, dated 10th January 1902

We have now nearly two and a half millions gold in Gold Reserve Fund We propose embarkation of half a million for investment immediately We hope that you will be able to arrange for remittance of remaining two millions by free sale of Councils in next three months, and so save cost of specie remittance

Telegram from VICEROY, dated 9th July 1903

Propose sending home 260,000*l* sterling, partly bazar gold, balance sovereigns, for investment on account of gold reserve, unless we hear to the contrary in a week or ten days We beg to recommend investment in sterling security other than Consols

Letter from the GOVERNMENT of INDIA to the SECRETARY OF STATE, No 229, dated 30th July 1903

MY LORD,

IN the Viceroy's telegram, No 4147 A of the 9th instant, in which we proposed sending home 260,000*l* in gold for investment on account of the Gold Reserve Fund, we recommended that the investment should be made in some sterling security other than Consols We have now the honour to explain our reasons for this recommendation

2 We observe from paragraph 7 of your Despatch No 232 (Financial), dated 13th December 1900, that your Lordship did not think it necessary to specify precisely in what gold securities the reserve should be invested, and that you left it to the discretion of the Secretary of State to vary the investment from time to time We understand, therefore, that there is no strong objection to our proposal, and we consider that it would be advantageous in several ways

3 In the first place the investment of a part of the fund in securities, such as those of the London County Council or our own sterling stock, carrying a higher rate of interest than Consols, would add materially to the receipts of the fund, and accelerate its growth The sum at present standing at the credit of the fund is not in our opinion sufficient to meet all possible contingencies, and we should be glad to take any legitimate means of raising it to a higher figure We regard investment in 3 per cent securities of good standing as a proper means to this end

4 There are many local securities in the United Kingdom, as well as our own stock, which appear to be desirable investments, and it would, we think, be an advantage to possess some of these instead of keeping all our reserve in one class of security In the event of our having to realise a portion of the fund, we should probably get better prices if we had a choice of stock to put on the market, and the simultaneous sale of securities of different classes would not have the same prejudicial effect in depreciating the value of our investments as if they were all of one class

5 Should your Lordship think it advisable to purchase India stock on account of the fund, the investment would have the further advantage of relieving the market for this stock, and might have the effect of strengthening our credit in London An objection might possibly be raised to the effect that, in the event of our being obliged to draw on the Gold Reserve Fund to meet a fall in exchange, the value of Indian securities would be depreciated so that it would be inadvisable to put them on the market We do not, however, regard it as at all certain that the latter result would follow Our credit in the London market is now more dependent on the supply of capital loanable at low rates of interest in that market than on the exchange relations between India and the United Kingdom, and a temporary contraction of our exports to a point affecting exchange would not necessarily reflect on our credit as a borrower We do not, therefore, apprehend that the investment of a portion of the Gold Reserve Fund in our own securities would be unsafe or likely to lead to serious loss on realisation

6 The above are the grounds on which our recent recommendation was based We shall be glad if your Lordship will take them into consideration when making future investments on account of the Gold Reserve Fund

We have, &c,

(Signed) CURZON
KITCHENER
T RALEIGH
E FG LAW
E R ELLES
A T ARUNDEL
DENZIL IBBETSON

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No 159, dated 11th September 1903

MY LORD,

I HAVE considered in Council your Excellency's Financial Letter, No 229, dated 30th July 1903, in which you explain your reasons for recommending in your telegram of 9th July that the sum of 260,000*l* which was recently sent by you to this country for investment on account of the Gold Reserve Fund should be invested in some sterling security other than Consols

2 That recommendation, as you have been informed in my telegram of the 16th July, has been approved by me, and sums of 175,000*l* and 81,988*l* have been invested in National War Loan Stock, at prices of $97\frac{1}{2}$ and $97\frac{3}{4}$ respectively

3 You now submit for my consideration the further question whether India sterling stock should be included among the securities in which investments may properly be made on account of the Gold Reserve Fund

4 You recommend an extension of the field of investment on the grounds that (1) it is inexpedient to keep the whole of the reserve in one class of security, and (2) that by investing the Fund in securities carrying a higher rate of interest than Consols its growth may be accelerated, an object which it is desirable to attain by any legitimate means I assent to both these propositions In favour of purchasing India stock in particular, you urge that such an investment would have the further advantage of relieving the market for this stock, and might have the effect of strengthening your credit in London It may be the case, as you proceed to argue, though this a controvertible point, that a fall of exchange such as would necessitate drawing upon the Gold Reserve Fund would not have a direct effect in depressing the price of India stock, at the very time when the occasion arose for selling it, but it is at least possible that such a fall of exchange would indirectly have this effect, by giving rise in the market to anticipations, perhaps unwarranted or exaggerated ones, of probable sales of India stock held on account of the Gold Reserve Such a result would hardly be beneficial to Indian credit It should, moreover, not be forgotten that if some political complication occurred which simultaneously depreciated the credit of the Government of India, and the exchange value of the rupee, the sale of India stock could under such circumstances be only effected at a loss both of credit and price

5 A Reserve Fund such as that now created should, if possible, be of such a character as to permit of its realisation, without substantial loss or detriment to Indian credit, in any emergency, either monetary or political

6 The balance of advantage undoubtedly seems to lie in favour of confining investments on account of the Gold Reserve Fund to securities more unquestionably dissociated from the influences of fluctuations in exchange than India stocks can be said to be

7 For the present I have given directions for the dividends on the Gold Reserve Fund to be invested, as they are received, in the National War Loan, which yields, at its current price, allowing for redemption at par in 1910, a return scarcely less than that obtainable from India 3 per Cent Stock Whenever it becomes desirable, from any cause, to select another security for investment on account of the Fund, due regard will be had to the considerations set forth in paragraphs 3 and 4 of your lettter

I have, &c,

(Signed) GEORGE HAMILTON

Letter from GOVERNMENT OF INDIA to the SECRETARY OF STATE, No 121, dated 28th April 1904

SIR,

WE have for some time past been considering the best means of guarding ourselves against a sudden depletion in the rupee portion of our Currency Reserve, such as occurred in the year 1900-1, and as appeared

possible, though not probable, in November last The suddenness and the extent of the demands which may be made upon the rupee reserve will be evident from the statement which is appended to this letter, showing for each month the gain or loss in the stock of rupees held in the Currency Reserve during the last four years, such gain or loss being calculated without reference to the additions which have from time to time been made by new coinage

2 Experience has shown that we cannot obtain silver in India in sufficient quantities to meet sudden demands for coinage, and the process of sending home gold for the purchase of silver and importing the latter for coinage entails a delay of several weeks before coining operations can be begun Such delay might be of serious consequence in the event of a sudden and strong demand on our rupee reserves, and we feel it incumbent on us to take every precaution against the risk of being unable to fulfil our rupee obligations, and the dislocation of the export trade of India which would follow from a shortage of silver coin

3 We therefore propose to accumulate gradually a reserve of silver bullion to be held in the mints as a portion of the Currency Reserve, which will enable us to begin coining as soon as the demand for rupees makes itself felt A stock of silver, melted, alligated, assayed, and rolled, ready for immediate coinage will form a valuable reserve in times of sudden pressure, and its existence will inspire confidence in the mercantile community in India, who have in the last few months shown themselves peculiarly sensitive to the apprehension lest our rupee reserves should not always be maintained at a safe level If the four processes mentioned above, which are those occupying the longest time in the operation of coining, are then completed in advance, it will be possible for the mints to begin paying over newly coined rupees to the Treasury within four days of receiving the order to start work

4 The amount of bullion which we contemplate holding permanently is three crores' worth, but we do not think it necessary to purchase this amount at once, we would leave it to you to obtain it gradually and cheaply as the state of the market permits We think that it would be well, however, to buy £1,000,000 worth of silver as soon as the market offers favourable conditions Part of this amount may be required for coinage, and it is possible that we may shortly have to ask you by telegram to make a further purchase for this purpose In any case we shall feel safer when this stock is obtained and we have a nucleus for our proposed reserve

5 It is our intention that this stock shall be kept quite apart from the ordinary silver bullion in the mints and in separate vaults, and that it shall not be made available for ordinary requirements, for coinage, but only in case of emergency Instructions will be issued that no part of it shall ever be withdrawn for purposes of coinage without the previous express orders of Government communicated through the Comptroller-General

6 We may add that we have not overlooked the legal aspect of the proposal Section 13A of the Indian Paper Currency Act, 1882 (XX of 1882, as amended by VIII of 1900), requires us to give directions for the coinage of silver purchased from the funds of the Currency Reserve *as soon as convenient*, but the words in italics are sufficiently wide to cover the course which we contemplate We hope, however, to make the point clear in a general revision and consolidation of the Act, which will shortly be taken up

We have, &c,

(Signed) CURZON
KITCHENER
E FG LAW
E R ELLES
A T ARUNDEL
DENZIL IBBETSON
H ERLE RICHARDS

* Silver was bought in accordance with this despatch to provide for a bullion reserve

Statement showing the gain or loss in the stock of rupees held in the Currency Reserve during the last four years, without reference to the additions made by new coinage

—	1900-01	1901-02	1902-03	1903-04	Average
	Gain + Loss −	Gain + Loss −	Gain + Loss −	Gain + Loss −	Gain + Loss −
April	−2,21,73	−1,77,62	−85,07	−2,14,76	−1,74,79
May	+10,37	+17,84	+45,50	−18,26	+13,87
June	+1,00,13	+2,59,98	+1,57,57	+91,55	+1,52,31
July	−68,40	+51,30	+91,34	+21,62	+23,97
August	−2,06,69	−80,48	−53,18	−1,15,00	−1,13,84
September	−1,94,51	−77,73	−1,09,34	−2,25,77	−1,51,84
October	−1,90,43	+76,55	−17,60	+12,30	−37,30
November	−1,03,08	+2,93	−88,25	−1,97,82	−96,56
December	−1,76,25	−1,95,18	−2,14,29	−1,05,23	−2,47,74
January	−2,01,44	−83,60	−3,77,17	−2,12,86	−2,12,52
February	−2,04,06	−1,10,69	−1,93,86	−2,02,10	−1,77,68
March	+1,62,98	+31,51	−3,14	—	+64,78
Total gain or loss	−12,96,11	−2,82,19	−8,77,49	−11,66,33	−9,80,53
Add on account of coinage of Native States in 1900-01, and withdrawals of old issues	+3,73,69	+1,16,58	+8,07,25	+1,52,10	+4,37,40
Net gain or loss	−9,22,42	−1,65,61	−70,24	−10,14,23	−5,43,13

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No 41 Financial, dated 7th April 1905

MY LORD,

IN my telegram dated 9th March last, while accepting your proposal that the remittance of two crores of rupees to this country which will be required for the investment on account of the Paper Currency Reserve shall be made by means of Council drawings, I added that I should address you further on the subject of remittances of gold

2 The question of the amount of gold that can be conveniently held in the Paper Currency Reserve in India was discussed by your Excellency in your letters of 14th December 1899 (No 421) and 6th September 1900 (No 302) In the latter communication it was suggested that 7,000,000*l* should be regarded as the maximum, and this proposal was provisionally accepted in Lord George Hamilton's Despatch No 232, of 13th December 1900 The question was again considered by you last year in connection with your proposal to increase the amount invested on behalf of the Paper Currency Reserve, and in your letter of 18th August last, No 295, you stated that in your opinion a stock of gold of the value of 9¼ crores (6,167,000*l*) in the reserve would be ample and that a larger proportion is not at present required in India You also stated that you have found by experience that at the beginning of the busy season the proportion of silver coin in the currency reserve should be approximately one-third of the total note circulation As the gold held in the reserve has not fallen below 9,000,000*l* during the last two years, and has during the whole period since March 1904 exceeded 10,000,000*l*, I assumed, when agreeing that the invested portion of the reserve shall be increased by the substitution of sterling securities for two crores of the metallic portion, that it was your intention to remit gold to England for the purchase of the securities In deference to the representations made in your telegram of 8th March 1905, I have agreed that the remittance shall be made by means of Council Bills But I should be glad if you would consider whether the amount of gold held in India should not nevertheless be reduced

3 According to the statement for the 9th March 1905, which is the latest before me, the composition of the Currency Reserve on that date was as follows —

	Crores
Securities - - - -	10
Silver coin - - - -	9 07
Silver bullion - - - -	1 88
Gold - - - - -	16 47
Total - - -	37 42

The amount of silver coin was considerably below the proportion of one-third mentioned above, and when an investment of two crores is made in England, and the metallic reserve in India is reduced, the reduction will presumably be effected wholly or in part by the transfer of rupees to the ordinary treasuries

4 In view of these figures it appears to me that there would be some advantage in remitting gold to England early in the present financial year

Having regard to the state of your balances as described in your telegram of 8th March, it would perhaps be the more convenient course that gold so remitted should in the first instance be held as a part of the Paper Currency Reserve at the Bank of England It could be used, if a favourable opportunity occurs in the near future, for the purchase of silver in anticipation of future requirements, or, if you are unwilling at present to anticipate requirements, it could be held at the Bank so as to be immediately available for the purchase of silver whenever the need for additional coinage may arise It is also to be remembered that the possession of a stock of gold in England, held as a portion of the Paper Currency Reserve, but capable of being transferred to the ordinary balances of the Secretary of State in Council, against a corresponding transfer of rupees from your balances to the Currency Reserve in India, affords a method (which might in certain circumstances be very useful) of speedily replenishing the balances of the Secretary of State in Council

5 I shall be glad to receive an expression of your views on the points discussed in this Despatch

I have, &c ,
(Signed) St John Brodrick

Letter from the Government of India to the Secretary of State, No 236, dated 29th June 1905

Sir,

We have the honour to refer to your Financial Despatch No 41, dated the 7th April 1905, on the subject of the amount of gold held in the Paper Currency Reserve You cite various opinions which the Government of India have expressed at different times as to the amounts of gold and silver respectively which should be held in the Reserve, and you ask us to consider whether in view of the large stock of gold now held in India, a portion of it should not be remitted to England You also suggest that it might be convenient to hold the gold so remitted in the first instance as a part of the Paper Currency Reserve at the Bank of England, and you point out certain advantages which would attach to the possession of such a stock of gold in England

2 In the previous discussions to which you refer concerning the amount of gold that can conveniently be held in the Reserve, our views were influenced by the sudden demands which had arisen for the provision of rupees in India, and by anxiety lest the presence of a large stock of gold should hamper us in meeting those demands Our position in this respect has been greatly strengthened by the large increase that has taken place in

the note circulation in the last few years, and by the formation of a special ingot reserve of three crores of tolas of silver, as proposed in our Despatch No 121, dated 28th April 1904 The position will, we think, be made still more secure if you accept the proposal put forward in our Despatch No 143 of the 27th of April last, for the annual purchase of silver in anticipation of actual requirements

3 The object of this proposal was to secure a sufficient supply of rupees to meet all urgent demands, and so long as this object is effected we see no cause for anxiety in the accumulation of a large stock of gold On the contrary we consider that the balance of the uninvested portion of the Reserve which is not likely to be required for circulation as money ought to be held in gold rather than in silver, and that the possession of a large stock of the yellow metal will strengthen our credit and contribute to the stability of exchange Subject, therefore, to the provision of sufficient rupees and reserves of silver, we would allow our stock of gold to grow indefinitely with the expansion of the note circulation until such time as it may be deemed expedient to make a further addition to the invested portion of the Reserve

4 We do not, however, consider it in any way necessary that the whole of the gold should be held in India As pointed out in the second paragraph of your Despatch under reply we expressed the opinion in August last that a stock of 9¼ crores in the Reserve furnishes, under present circumstances an ample maximum for Indian purposes, and one of the objects of the recent revision of the Paper Currency Act was to facilitate the transfer of the gold portion of the Reserve between India and England We would in this connection invite attention to the remarks made by our Honourable Financial Colleague when moving on the 11th of March last that the Report of the Select Committee on the amending Bill should be taken into consideration The Honourable Mr Baker then observed that "so far as gold is concerned, " the coin held in London is actually one stage nearer the point at which it " becomes effective for securing the encashment of notes than when it is in " India "

5 We are accordingly disposed to welcome your suggestion that a portion of our stock of gold should be remitted to London and held as a part of the Paper Currency Reserve at the Bank of England To the advantages which you have enumerated as attending this measure we would add that it will enable you to make purchases of silver quietly without giving the forewarning to the market which is entailed by the present system of making separate remittances for each purchase

6 We therefore propose to send 5,000,000*l* (five million pounds) in gold to London to be held by you as a part of the Currency Reserve When you draw on this fund for the purpose of purchasing of silver, we would ask you to replenish it from time to time by the sale of Council Bills, at your convenience, and to inform us on each occasion of any intended operation on the fund, so that we can adapt our arrangements accordingly In the event of the demand for Council Bills being slack at any time, you would be able after warning us to replenish the Reserve in India, to utilise your stock of currency gold for Treasury payments If this proposal meets with your approval we should be glad to be informed as soon as possible in order that early arrangements may be made for shipping the gold

7 With reference to the remarks in paragraph 3 of your Despatch regarding the amount of silver coin held in the Paper Currency Reserve in March last, we would point out that the standard of one-third of the total note circulation referred to in our Despatch of the 18th of August 1904 was suggested as sufficient at the opening of the busy season, and that that season was drawing to its close on the 9th of March We take this opportunity of explaining that the standard which we suggested last year on Sir Edward Law's advice was a rough estimate only, and that we do not at present consider that we have sufficient data or experience for laying down any arithmetical criterion We attach more importance to the proposals stated in our Despatch of the 27th of April last for anticipating requirements, than to the maintenance of any fixed proportion of rupees to the note circulation, and in any

event, we do not consider that the gross circulation, which includes notes held in the Reserve Treasuries, could in any circumstances be treated as the basis of such a criterion

We have, &c
(Signed) CURZON
KITCHENER
E R ELLES
A T ARUNDEL
H E RICHARDS
J P HEWETT
E N BAKER
C L TUPPER

Despatch from SECRETARY OF STATE to GOVERNMENT OF INDIA, No 91, Financial, dated 11th August 1905

MY LORD,

IN your letter of the 29th of June, No 236, you accept the suggestion made in my Despatch of 7th April, No 41, that a portion of your stock of gold should be sent to this country to be held as a part of the Paper Currency Reserve, and you propose to make early arrangements for the shipment of 5,000,000*l* I understand that you desire that the 1,000,000*l* shipped on the 8th of July, as reported in your telegram of 6th July, may be regarded as a portion of this 5,000,000*l*

2 I approve the proposal that a further 4,000,000*l* shall be sent It should be consigned in instalments of not more than 1,000,000*l*, and you should inform me by telegraph when each consignment is about to be made

3 When the gold held in England is drawn upon for the purchase of silver it is possible that in some cases the most convenient arrangement for keeping the total Currency Reserve up to the required amount will be that contemplated in sections 17 and 19 of Act III of 1905, viz to treat the silver purchased as a portion of the reserve The stock of gold in England can subsequently be replenished, as you propose, from the proceeds of Council Bills (if the state of the Home Treasury balances admits of this) so as to release rupees from the Currency Reserve in India This procedure would obviate the necessity for making transfers in India from the Treasury to the Paper Currency Department at the time of the purchase of the silver, which I understand to be the course suggested in the sixth paragraph of your letter

4 For the present, however, the silver that is being purchased in accordance with the requests contained in your telegram of the 5th April, your letter of the 27th April, and your telegram of 30th June, is being paid for from the balances of the Home Treasury, so that the whole 5,000,000*l* of gold will be held from the time of its arrival as a part of the Paper Currency Reserve

5 I forward a copy of a letter to the Bank of England requesting them to take the necessary measures

6 I also forward a copy of a note by the Deputy Accountant-General at this Office, from which it will be seen that it is desirable that you should announce (in the manner that appears to you most convenient) that the shipments are to be made on behalf of the Paper Currency Reserve, and not for the purpose of replenishing the balances of the Secretary of State for India in Council

I have, &c,
(Signed) ST JOHN BRODRICK

Enclosure No 1

INDIA OFFICE to BANK OF ENGLAND

F 5156 India Office,
28th July 1905

GENTLEMEN,

I AM directed to inform you that the Government of India intend to consign to this country during the present year 4,000,000*l* in gold in addition to the 1,000,000*l* referred to in the correspondence ending with Mr Nanne's letter of the 7th July

The whole 5,000,000*l* will for the present be treated under the arrangements contemplated in the Indian Paper Currency Act, 1905 (of which a copy is enclosed for your information) as being a part of the reserve to secure the payment of currency notes issued in India

I am to inquire whether you will be so good as to hold the gold on behalf of the Secretary of State in Council on a separate account distinct from his cash and drawing accounts

Portions of the amount so held may from time to time be used for the purchase of silver or for other purposes, and in this event a transfer to the Secretary of State's cash account will be required, and the necessary instructions will be given by this Office

I have, &c
A GODLEY

The Governor and Company of the
Bank of England

Enclosure No 2

Note by the DEPUTY ACCOUNTANT-GENERAL, India Office, dated 22nd July 1905

I have to suggest, for consideration, that in view of the magnitude of the operation it might be desirable to take some steps to acquaint the market that the gold to be shipped will not be available for the purposes of loans from the Secretary of State's balances The Broker has recently mentioned to me on several occasions that the publication by the newspapers of the intended shipment of gold, which is usually announced by the news agencies directly the freight is arranged in India, has a distinct effect on the rates he is able to obtain for our loans The firms on the borrowing list occasionally quote the information to him, and either decline to renew in the expectation of cheaper money and supply themselves instead from other sources with weekly or other short term loans, or else make the news the pretext for offering a lower rate of interest than would otherwise be obtained In this case the shipments of gold will be large, and will perhaps spread over some time I see from to day's "Times" that a rumour as to a further shipment is already afloat

H W BADOCK

Telegram from VICEROY, dated 15th December 1905

Your telegram of 14th instant Transfers to Currency Reserve We regard it as advisable to transfer to our Treasury Balances a further sum of Rs 75,00,000, and shall be glad, therefore, if 500,000*l* may be transferred to the Currency Reserve (Gold) on the 16th instant Please also expedite as far as you can the shipment of silver that has been ordered

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Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 16th December 1905

Transfer of gold to Currency Reserve I am willing to make the transfer as requested in your telegram of yesterday at once, if this is the only possible course But as it is undesirable just now to withdraw gold from the Bank of England Reserves, it would be better to postpone or, if possible, to avoid such transfer Accordingly I would ask you to consider whether by treating

the gold in your Treasury Balances and the balance of the silver bullion received by you, or in transit to India, as belonging to the Currency Reserve, we might not avoid the necessity of immediately transferring gold to the Currency Reserve in England, or at any rate make the amount to be transferred smaller

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Telegram from VICEROY, dated 19th December 1905

Currency transfer Your telegram 16th December We must, in spite of the possibility of inconvenience to the Bank of England, earnestly press our request that you will transfer to your Currency Balance half-a-million of gold from your Treasury If this is not done, your large drawings of telegraphic transfers will cause us serious embarrassment We are coining as fast as possible the entire special ingot reserve, we have already earmarked for Currency most of the silver bullion en route, we have made as much use as possible of our Treasury gold, and have arranged for temporary loan of 70 lakhs from Gwalior

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Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 19th December 1905

Currency transfer Your telegram of to-day To morrow I will set aside half-a-million In order to guide me at allotment to-morrow, please inform me of the amount of transfers you can, without my setting aside further gold, meet this week When you reply, please keep in mind my announcement in my telegram of yesterday as to shipments of silver for this week and next week

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Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No 144, dated 26th April 1906

SIR,

IN your telegram of the 11th January 1906 you authorised us to raise the silver ingot reserve from 300 to 600 lakhs of tolas No steps, however, have yet been taken to give effect to this decision The extraordinary demand for rupees during the busy season which is now expiring completely exhausted our original reserve of 300 lakhs by the 15th January last, and we have only with difficulty been able, though employing the Mints at their full capacity, to maintain a supply of coin sufficient for immediate requirements Now that this pressure has been relaxed we desire to explain the manner in which we propose to build up an enlarged reserve, and to suggest other measures for strengthening our position

2 As regards gold, the position already attained is undeniably strong We have accumulated by a natural process a stock of over £12 millions in the Gold Reserve Fund, besides over £11 millions in the Currency Reserve, and in addition the paper currency investment now includes £1⅓ millions' worth of sterling securities During seven years we have never been threatened with serious attack from this side We are far from affirming that the point has been reached, or is in sight, when further accumulations of gold should cease Even a relatively small depletion of our total stock of gold might excite public apprehension, and this is the more important now that it has been decided to divide our stock by holding five millions or more in your currency chest in London At the present time we hold less than four millions of gold in India and we are assured that no material reduction in this figure would be consistent with public confidence We are however, satisfied that further direct additions to the Gold Reserve Fund can with advantage be temporarily suspended if such a measure would enable us to strengthen our position on a weaker side

3 The case of silver is wholly different From first to last our only practical difficulty has been the timely provision of rupees, and notwithstanding various improvements of method, that difficulty still remains, and as recent experience has again shown, it constitutes a real danger When

making our forecast for the busy season of 1905–6 we found ourselves, on the 1st October last, with a balance of 13 crores of coined rupees in the Currency Reserve, in addition to the ingot reserve of 300 lakhs of tolas, and bullion already ordered or purchased sufficient to produce nearly 280 lakhs more. Assuming a demand equal to that of the corresponding months of 1904–5, we might have expected, without further purchases of silver and without drawing on the ingot reserve, to be able to maintain a minimum rupee balance of more than 11 crores up to the end of January. But to be on the safe side we indented for 750,000*l* worth of additional silver by that date. In the actual event we had to ask you to increase your purchases of bullion during the period mentioned to £2¾* millions' worth, and we also converted into coin the whole of the ingot reserve. The fresh coinage amounted to 777 lakhs, or five crores more than had originally appeared to be required for the maintenance of a balance of 11 crores. Notwithstanding this enormous outturn our rupee balance has fallen by the end of January to 7½ crores. On the 6th January we had to send you a further request for the purchase of £2½ millions' worth of silver†, and we had to supplement our resources by obtaining a temporary loan of 70 lakhs from the Maharaja Scindia, and by purchasing Rs 30 lakhs' worth of silver from the Russo-Chinese Bank. The depletion of our balances in India also embarrassed the Secretary of State in England, as, for example, when‡ we had to ask Mr Brodick to increase his purchases of silver, notwithstanding the risk of disturbing the silver market, and later, when§ we had to press you to transfer gold from Treasury to Currency, though advised that the withdrawal of gold from the reserves of the Bank of England would be inopportune. During this period our Mints have been working at the highest possible pressure, and the total net addition to the rupee coinage in 1905–6 has been about 16½ crores of rupees, against 7¼ crores in 1904–5, and 13¼ crores in 1900–1 which till now marked the highest outturn recorded since the closure of the Mints. Nevertheless, while at the end of March 1905 we had 11,36 lakhs of coined rupees and 2,59 lakhs of tolas in ingot form in our Currency Reserve, the return of 22nd March 1906 showed only 11,65 lakhs of coined rupees with no ingot reserve at all.

4. It would have been futile to seek refuge from these difficulties in the curtailment of your drawings. If the sale of Council Bills is restricted, gold will be shipped and tendered for conversion into rupees after only a slightly longer interval, and that gold must ultimately be returned to England, at our cost, for the purchase of silver. The stoppage of telegraphic transfers disorganises trade and only defers the eventual demand. The adoption of such expedients can therefore only be justified by extreme and passing emergency. On the other hand it is obviously impossible that the rupee resources from which your drafts are honoured should be obtained from the actual gold on the deposit of which they were issued. The demand must always fall in the first instance on the stocks of rupees and bullion then in hand. It follows that for permanent safety these stocks must be materially strengthened, that their maintenance at a high figure must be recognised as a fundamental obligation of currency administration, and that we must accept any modifications of system which these conditions may necessitate.

5. To give effect to these conclusions we propose—

(i) to form a silver reserve of 600 instead of 300 lakhs of tolas,

(ii) to hold this bullion outside the Currency Reserve, and

(iii) to accept and act upon the principle of advance coinage by coining rupees at the rate of 150 lakhs a month throughout the coming slack season (April to September).

6. The first of these measures has already received your approval, and the only observation which the fuller explanations now given are likely to suggest is that it is not by itself sufficient to afford us the protection we require. This criticism we hope to meet by our remaining recommendations.

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* The supplementary indents were half a million to be delivered by the 31st January, and £1½ millions to be delivered by the 15th February.

† The further orders for £1 million of silver in each case, telegraphed to you on 8th February and 8th March, represent requirements subsequent to those of 1905–6.

‡ Telegram to Secretary of State dated 19th November 1905.

§ Telegram to Secretary of State, dated 19th December 1905.

7 Our next proposal is to build up the enlarged bullion reserve entirely from profits on coinage, and to hold it as part of the Gold Reserve Fund This method was not considered in 1904, when the amount of the Gold Reserve Fund was considerably below its present figure The exhaustion of the original ingot reserve offers a convenient opportunity for reconsidering our procedure In our judgment it is undesirable in principle to hold in the form of bullion any substantial portion of the metallic reserve which secures the encashment of our currency notes The value of the metallic reserve is limited by the volume of the note circulation and the amount of the paper currency investment, and all bullion held within it must displace legal tender coin of equal value, and to that extent renders the metallic reserve less efficient This objection could be waived when only a small amount of bullion was required, but it becomes more pressing in view of the decision to increase the ingot reserve to 600 lakhs of tolas

8 It would of course be possible, while maintaining within the Currency Reserve an ingot reserve of 600 lakhs of tolas (representing roughly 4 crores of rupees) to raise the balance of coined rupees to any desired figure, but this could be effected only by unduly depleting our stock of gold Thus, taking the note circulation at 42 crores, and estimating 18 crores as a suitable rupee balance with which to open the busy season, the Currency Reserve would be constituted as follows —investment, 12 crores, ingot reserve, 4 crores, coined rupees, 18 crores, gold, 8 crores or £5⅓ millions It is obvious that we could not supply you with the £5 millions which you require for your currency chest, and meet even the present demand for gold as a circulating medium from the remaining 333,000*l* Moreover, nothing at all would be left in India for contingent requirements, and in the event of an incipient drain of gold we should be driven back at once upon your currency chest and the Gold Reserve Fund We have also to remember that the expansion of your drawings and the recent decision to grant telegraphic transfers against sovereigns in transit from Australia will check importation of gold into India in the future On every ground, and even though a somewhat lower estimate be taken of the rupee balance required, and allowance made for a gradual expansion of the note circulation, it is clear that there is no longer room within the Currency Reserve for the large stock of bullion which we are now compelled to keep

By holding the ingot reserve elsewhere we should, however, be able, on the data given above, to keep three millions of gold in our Currency Reserve in India We do not think it advisable to go below this figure

9 The natural method of maintaining a reserve of bullion for coinage purposes would be to purchase the amount required from revenue, and to replenish it from the same source as required from time to time This would, however, involve either the reduction of our balances by about £2¾ million sterling, which is quite impossible, or the raising of an equivalent amount by borrowing, with its attendant charge for interest We are of opinion that this charge may fairly be thrown upon the Gold Reserve Fund, and that there is nothing inconsistent with the purposes of that Fund in the measure which we propose At present, when silver is purchased for coinage, (1) we first replace by coined rupees the gold withdrawn to pay for the bullion, (2) the surplus bullion is then coined into rupees, (3) the latter are then again converted into gold, and (4) the latter is remitted to England for investment into interest-yielding securities What we now propose is to suspend this process in the course of the second stage, *i e*, the surplus bullion instead of being coined, converted into gold, and invested, should be retained in a partially coined state until required for actual use The profits on coinage which it represents will still be held apart as a part of the Gold Reserve Fund, and will eventually be converted into gold and invested, but this process will be deferred until the demand for rupees requires it The effect no doubt is that the amount so held will not be earning interest in the meantime, but having regard to the rapid progress of our accumulation of gold in the Gold Reserve Fund in the past five years, we consider that the question of its further accretion by interest is now of less importance than the formation and maintenance of a sufficient reserve of silver bullion Our currency system is unavoidably artificial, and the profits

arising therefrom should be primarily utilised, not in breeding interest, but in protecting it against the risks to which an artificial system is liable At the outset the main risk apprehended was an inadequate stock of gold, hence the creation of the Gold Reserve Fund Now the pressing danger is a temporary deficiency in our stock of rupees, which equally justifies the expansion of that Reserve Fund so as to include a silver bullion branch Moreover, as will be observed from the next paragraph, there will be no prolonged or complete retardation of the growth of the gold reserve

10 We propose, then, to convert our existing Gold Reserve Fund into a Gold and Silver Reserve Fund, into the silver branch of which we shall deposit in the form of silver bullion, prepared for coinage, all profits on future coinage until the full reserve of 600 lakhs of tolas has been accumulated The precise method of working will be obvious from the following example Taking silver at 30*d* per ounce we can purchase with £1 million of gold about 215 lakhs of tolas of standard silver Out of this amount 150 lakhs of tolas will be converted into the same number of rupees and these rupees will replace the gold taken from the Currency Reserve About three lakhs will represent the Mint charge for seigniorage, and about one lakh of tolas will disappear in wastage There will remain about 61 lakhs of tolas of bullion which will be deposited in the silver branch of the Gold and Silver Reserve Fund as the profit on coining one and a half crores of rupees With silver at 28*d* per ounce, the net profit on the same coinage would amount to about 76 lakhs of tolas of bullion Thus the coinage programme of one and a half crores of rupees a month, which we are about to lay before you, will provide us with a minimum silver reserve of 3½ crores of tolas before the next busy season begins, and meanwhile the rupee balance in the Currency Reserve will have been strengthened by the addition of 9 crores We shall of course go on to build up the full reserve of six crores of tolas as soon as further coinage produces the required profits

11 To utilise this bullion reserve, if circumstances should require it to be drawn upon, we should coin into rupees and transfer to the Currency Reserve the amount required at the moment (say 150 lakhs), and credit the Gold and Silver Reserve Fund with the equivalent in gold (£1 million) Of this gold a sum worth about 61 lakhs of tolas of bullion (284,000*l*), at present silver prices, would be transferred to the Gold Branch of the fund as the profit on coining 150 lakhs, and the remainder would suffice for the re-purchase of the amount of silver which had been withdrawn (150 lakhs of tolas), besides meeting the seigniorage charge and the loss by wastage The silver reserve would thus be automatically restored to its full amount

It will thus be seen that whenever the bullion reserve is drawn upon, and of course after it has been finally formed, all subsequent profits will be credited directly in gold as heretofore, while the accrual of interest on the existing investments will continue unchecked Thus the only effect on the stock of gold is that a sum of about £2¾ millions (the amount required to purchase 600 lakhs of tolas) will be held in suspense in the form of silver, and will not earn interest

12 We pass on to our third recommendation The principle of coinage in advance of actual requirements was formulated in the despatch from Lord Curzon's Government No 143, dated 27th April 1905 We are of opinion that more complete effect should now be given to the conclusions there stated We would note, in the first place, that the proper function of the bullion reserve is to provide for unforeseen demands The normal coinage of the year should be evenly distributed, instead of being concentrated into the busy season when the bullion reserve itself may require to be converted into coin By following a different practice in the past we have incurred a grave risk In the last few months the Mints, as already stated, have been working at extreme pressure, and the occurrence of labour troubles such as actually took place in the Government Press at Calcutta would have led to the most serious results In the coming year certain structural alterations have to be carried out at the Bombay Mint, and the possibility that they may interfere with the work of the busy season is an additional reason for making ample preparation beforehand Secondly, we would point out that the limit of reliance upon a reserve of bullion is reached when the reserve becomes

so large that the time taken to coin it exceeds the time required to replace withdrawals by fresh purchases in England. Any further strengthening of our stocks can then be most advantageously effected by working up to a higher balance of coined rupees at the beginning of the busy season. Thirdly, we have to bear in mind that our bullion reserve in the Gold and Silver Reserve Fund will for some time to come be below its full intended amount, and though we could, of course, for the present, hold the balance of the six crores of tolas in the Currency Reserve, it will cause less complication and yield the same result if we raise the number of coined rupees to a higher amount than would otherwise be necessary. Advance coinage has also the advantage of spreading the demands on the silver market more evenly. And, generally, we recommend it as an obvious measure of precaution, unattended by counterbalancing risks. Experience shows that a temporary surplus of rupees will inevitably be soon absorbed, and in the meantime the excess coin remains locked up in our balances and reserves, and cannot affect prices and the course of exchange. We trust that in view of these considerations you will be prepared to accept the programme of coinage which we now lay before you, and to make purchases of silver in accordance with it.

13. The facts already stated suggest that 18 crores is by no means an excessive estimate of the number of coined rupees which we ought to have available in our Currency Reserve on the 1st October, when the busy season is about to open. The absorption of the five months October to February inclusive has averaged about Rs $7\frac{1}{2}$ crores during the last six years, while in 1905-6 it amounted to no less than $14\frac{3}{4}$ crores. It is clear, therefore, that in a year in which your Council drafts are heavy our stock of rupees though standing at 18 crores on the 1st October, will still require to be supplemented by the continuous coinage in the cold weather months, while if they prove relatively light, we can reduce or stop the outturn of the Mints. For 1906-7 we estimate that we shall have to coin 9 crores at the rate of $1\frac{1}{2}$ crores a month between the 1st April and the 30th September next to attain the 18 crore standard, while, as above pointed out, the ingot reserve will then be still below its full amount.

14. As we have already explained, during the period when profits on coinage are being credited in silver, the coinage of each 150 lakhs of rupees involves the purchase of £1 million's worth of silver. An outturn of 9 crores of coined rupees will accordingly require the supply of six millions sterling worth of bullion. Excluding the indent of the 8th March we shall have in hand or already ordered, on the 1st April, a little over 2*l* millions' worth, the coinage of which, at the rate of 150 lakhs a month, will occupy the Mints to the end of May. Accordingly for the coinage operations of June to September we require £1 million's worth of bullion a month, timed to arrive on or before the middle of each month from May to August. We have already in pursuance of this programme requested you in our telegram of 8th March last to purchase and ship £1 million's worth in full by the 15th May and on the 7th April we asked you to send out a like amount not later than 15th June. We desire to follow this up by similar orders of £1 million each in May and June for full delivery by the 15th July and the 15th August respectively. Such further demands as we may have to make for the cold weather months will then be regulated by the actual position towards the close of the slack season, and by the progress of your Council drawings.

We have, &c.,
(Signed) MINTO
KITCHENER
A. T. ARUNDEL
DENZIL IBBETSON
H. E. RICHARDS
E. N. BAKER
C. H. SCOTT
C. L. TUPPER

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No 57, dated 25th May 1906

MY LORD,

I HAVE considered in Council your letter No 144, dated 26th April, recommending that a portion of the Gold Reserve Fund shall be held in silver

2 I am of opinion that there is no objection in principle to the change in the character of the fund which this proposal involves The general object for which the fund was established was to provide, in the spirit of the recommendation made by the Indian Currency Committee of 1898, that the profit on the coinage of rupees shall not be treated as a part of the revenues of India, but shall be separately held and used for a special and well defined purpose In 1900, when a scheme for establishing and dealing with the fund was approved by Lord George Hamilton, it was considered that the most useful purpose to which it could be devoted was to provide against the contingency of a fall in the exchange value of the rupee, and it was accordingly decided to hold it in gold or in sterling securities so that the sale of bills and telegraphic transfers on India might be reduced or suspended when the demand was inactive, a portion of the gold or securities being temporarily used, if necessary, towards meeting disbursements in this country This object is one which must always be borne in mind, but it is equally necessary to provide that, at times when the trade demand for remittances is active, it shall be met promptly and freely, and it is equally legitimate to use the fund for this purpose, provided that it is not treated as a part of the revenues of India Under your scheme a portion of the profits of rupee coinage would be held on behalf of the fund in silver to be used in meeting a demand for remittances in excess of the amount that could be met from your other resources, the proceeds of such excess remittances being devoted to the purchase partly of additional sterling securities for the fund and partly of silver to make good the amount withdrawn The total of the fund would remain intact and would be increased as now by the profit on additional coinage and the whole amount would be kept separate from your Treasury balances and the Paper Currency Reserve I accordingly approve your proposal

3 In the latter part of your letter you inform me that you desire to coin enough rupees during the six months from 1st April to 30th September 1906 to secure that at the latter date you may have 18 crores in your Paper Currency Reserve, you estimate that this programme will require the coinage of nine crores during the period mentioned and you ask that silver to the value of 2,000,000*l* may be ordered, in addition to the amounts requested in your telegrams up to and including that of 7th April I find that on the 3rd of May you had in the Currency Reserve 1,379 lakhs of rupees, and bullion to the value of 287 lakhs, including the amount in transit The value ordered but not yet supplied was 1,130,000*l* (169 lakhs) Taking the price of silver at 30*d* an ounce, the total amount of bullion in your possession, in transit, and still to be purchased on account of orders up to and including that which was given on receipt of your telegram of 7th April, was about 650 lakhs of tolas and the disposal of this amount, according to the figures given in paragraph 10 of your letter, would be as follows —

Rupees added to Currency Reserve - -	453 lakhs
Seigniorage and wastage - - - - -	12 ,,
Bullion transferred to Gold Reserve Fund (lakhs of tolas) - - - - - - -	185 ,,

Thus, if no allowance, is made for absorption of rupees through the presentation of notes for encashment up to the end of September, the rupees in the Paper Currency Reserve at that time would, apart from further purchases, exceed 18 crores, while the bullion held in the Gold Reserve Fund would amount to 185 lakhs of tolas The figures for past years show that during the period from April to September there is sometimes an absorption of rupees and sometimes an automatic addition of rupee reserve It is thus possible that the purchase of 2,000,000*l* silver in addition to the

amount already ordered may be in excess of what is required in order that you may have 18 crores of coined rupees in the Paper Currency Reserve by the 30th September, and may also have in your possession 3,50,00,000 tolas of bullion, the amount mentioned in paragraph 10 of your letter You will be in a position to judge in the course of June whether the full 2,000,000*l* is required Meanwhile, in accordance with the request contained in your telegram of 8th May, I have ordered silver to the value of 1,000,000*l*, and have given instructions that delivery shall, if possible, be completed in India by 15th July Even if this should not be practicable, the bullion that you now have, together with the weekly shipments, will be enough to enable you to proceed with coinage at the rate of 150 lakhs a month for some time beyond that date

4 It remains to consider in what manner the funds shall be provided for purchasing this additional 1,000,000*l* of bullion, together with the further amount suggested by you in paragraph 14 of your letter The usual practice is to make payments of this nature in the first instance from the balances of the Home Treasury, and to replenish those balances, as far as the convenience of your Government permits, by the transfer of gold from the amount held in this country as part of the Paper Currency Reserve It will, no doubt, be possible to arrange in the course of June and July for the transfer of considerable sums from the Paper Currency Reserve in addition to the 1,650,000*l* mentioned in your telegrams of 10th and 18th April and 2nd May, but it occurs to me that, if the use of this procedure appears likely to involve an excessive depletion of the gold held in the currency reserve, the balance in this country can in case of need be replenished by realising a portion of the securities held on behalf of the Gold Reserve Fund If this is done the simplest course will be to arrange that a portion of the Treasury bills shall be paid off as they mature instead of being renewed Thereupon a transfer of a corresponding amount in rupees or silver bullion can be made to the Gold Reserve Fund in India the net result being that an addition to the total stock of silver in your possession will have been made without affecting the stock of gold or the balances in this country or in India It is possible, of course, that the condition of the Treasury balances during the next few months may be such as to render it unnecessary to have recourse to this method of providing for the purchase of silver, but I shall be glad to be informed by telegram whether you are in favour of its adoption if occasion arises If you agree to the suggestion I shall inform you by telegram when a realisation of the securities is contemplated, in order that you may arrange at your convenience for the necessary transfer of silver In any event I propose to continue as now the investment of dividends on securities held on behalf of the fund

5 I observe that in various passages of your letter you refer to the fund as the Gold and Silver Reserve Fund, and I gather that you desire that this shall be its designation in the future It appears to me that it would be better to adopt a name which describes either its origin or the purpose for which it is maintained, and I suggest that it should be known in future as the Gold Standard Reserve, the name suggested in Lord George Hamilton's Despatch of 13th December 1900, No 232

I have, &c,
(Signed) JOHN MORLEY

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No 85 Financial, dated 20th July 1906

MY LORD,

IN the telegraphic correspondence* noted in the margin you discuss the question raised in the fourth paragraph of my Despatch of

* From Viceroy, dated 20th June 1906 To ditto, dated 28th June 1906 From ditto, dated 4th July 1906 (Not printed)

25th May last, No 57, whether, in order to avoid excessive withdrawals from the gold held in this country on behalf of the Paper Currency Department, it is advisable to arrange for the discharge of a portion of the Treasury Bills held on behalf of the Gold Standard Reserve, the money thus received being added to the balances of this Office to make good the depletion caused by the large purchases of silver recently made at your request, and the Gold Standard Reserve being restored to its present amount by the transfer to it of silver bullion or rupees in India of a value equal to the Treasury bills paid off

2 You state in your telegram of 4th July that the gold belonging to the Currency Department in this country serves the primary purpose of providing funds for the purchase of silver, and that, so long as it is applied to this purpose, you see no objection to its being almost or entirely depleted This is a view which I cannot share The possession of a large amount of gold by the Secretary of State in Council or the Government of India as part of the Paper Currency Reserve or in the Treasury balances is of considerable advantage to India as helping to maintain confidence in the permanence of the gold standard and in the stability of the exchange value of the rupee Since February last, the gold held by your Government and myself has decreased by 5,000,000*l*, and the total holding now stands at little more than 7,000,000*l* I gather from your telegram of 4th July that you would have no objection to a further reduction, bringing the total down to about 3,500,000*l*, and that you would prefer a reduction to that figure rather than the realisation of a portion of the Treasury Bills held on account of the Gold Standard Reserve

3 As at present advised, I think that a reduction of the total stock of gold to the figure that you have mentioned would be disadvantageous to Indian interests, and if towards the end of September it seems probable that the use of the gold in the Paper Currency Reserve as the sole source (other than the sale of Council Bills) for replenishing the balances of the Home Treasury will result in reducing the total holding of gold by the Government below 6,000,000*l*, I contemplate presenting for payment a portion or the whole of the 800,000*l* Treasury Bills maturing on 28th September Though I have mentioned 6,000,000*l* as a minimum for the present purpose, I think it desirable that the amount of gold held by the Government of India and the Secretary of State in Council should, as a rule, be considerably in excess of this figure

4 It is, of course, to be understood that Treasury Bills will not be realised unless the condition of the Home Treasury balances renders it necessary

I have, &c,
(Signed) JOHN MORLEY

Letter from J S MESTON, Esq I C S, to L ABRAHAMS, Esq, Financial Secretary, dated 18th October 1906

FINANCE DEPARTMENT Simla, 1906

DEAR MR ABRAHAMS,

OUR coinage programme, which was explained in Financial Despatch No 144, dated the 26th April last, has now been completed as far as it referred to the first half of the current year We proposed, and the Secretary of State sanctioned the proposal, to coin 9 crores of rupees from purchased silver between April and September, with the object of securing a balance of 18 crores in our Currency Reserve on the 1st October We anticipated that the profits on the operation would be represented by at least 3½ crores of totals of silver bullion, lodged in the newly formed silver branch of the Gold Standard Reserve

2 During the six months, our Mints have coined approximately 9½ crores of new rupees. Close on 3½ crores of tolas of silver have been placed in the Gold Standard Reserve, and some further payments which are necessary to bring up the full ratio of Mint profits are now being made. Finally the Currency Reserve on 1st instant held over 19¼ crores of coined rupees, so that our programme has been fully worked up to.

3 It has also been fully justified by the heavy demand for rupees. Although the net absorption of rupees for the six months was only about 3¾ crores, and the Currency Reserve on the 1st instant was considerably stronger than was estimated in March, yet the issue of rupees since the busy trade season set in has been phenomenally heavy. In August and September 625 lakhs were withdrawn against 365 lakhs in 1904–5, which was the highest figure of absorption for those two months during the last six years. The jute crop has been an excellent one, and the prices have risen beyond all expectation; they were all but double those of last year at the same season.

4 There is reason to believe that the drain on the Reserve will continue. The cotton harvest promises well, and it would not be safe to anticipate a smaller trade demand for rupees during the winter months than we had to face last year. In November–February of 1905–6 the absorption was almost 12¾ crores, and it is quite possible that our issues this winter may exceed even that figure. With this prospect before us, we shall have to keep the Mints fully engaged up to Christmas, and hence our continued indents upon you for silver, as well as our purchase of about 700,000*l* worth from the Russo-Chinese Bank in this country.

5 The great activity of trade, and the suddenness and magnitude of the demand for rupees which it forces on us, have led us to consider carefully where to turn for assistance in case of need. Something has on two recent occasions been obtained by means of temporary loans from a Native State, but this resource is uncertain and does not carry us very far. The most promising resource is the Gold Standard Reserve. The silver branch of this now amounts to over 3½ crores of tolas, stamped into blanks ready for coinage into standard rupees within a period of four days. By the end of November we anticipate that it will have reached the neighbourhood of four crores, and with expanding coinage it should continue to increase. It now stands outside the Currency Reserve, and (of course) is quite distinct from our ordinary cash balances. It forms a most convenient and readily available resource, and we think that it would be quite legitimate to draw upon it temporarily whenever our other cash reserves were for the time being exhausted. When it was so drawn upon, the amount appropriated should be treated as a temporary loan, bearing interest at the ordinary rate of 3½ per cent., and should be replaced as soon as the state of our balances permitted.

6 To enable us to resort to this expedient in case of need, we think that the balance of silver in the Gold Standard Reserve should be coined into rupees as speedily as convenient, and that in future all balances should be held in that form, and not in the form of blanks. In paragraph 61 of the Financial Statement for 1905–6 a contrary view was expressed. But at that time the Ingot Reserve, as it was then called, was held as part of the Currency Reserve, and it was considered important to hold it in a form naturally different from that of the ordinary currency. Now that the silver branch of the Gold Standard Reserve (which has taken the place of the former Ingot Reserve) stands quite apart both from currency and also from our cash balances, the reasons for maintaining it in a different form have ceased to exist. We could no doubt draw upon it immediately by transferring it to currency in exchange for rupees and this would be done in case of necessity, and it could be coined into rupees (provided that the Mints were free) at the cost of a delay of about four days from the start. But if the amount required were considerable, as is likely, the aggregate delay in coinage might be much greater, and we should be reluctant to accept the risk involved in an exchange for rupees in currency, the stock of which, though at the moment ample, is very far from stable.

7 We therefore desire the sanction of the Secretary of State—

(1) to the coinage, as convenience permits, of the silver in the Gold Standard Reserve into rupees, which will be kept entirely separate from our ordinary balances and from the Currency Reserve exactly as at present, and

(2) to our drawing upon the stock thus made available, when circumstances may require, in the form of temporary loans bearing interest at $3\frac{1}{2}$ per cent All such transactions will be reported to you by wire as they occur

Yours, &c,
(Signed) JAS MESTON

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No 135, dated 16th November 1906

MY LORD,

I UNDERSTAND from your Financial Secretary's letter No 5,851 A, dated 18th October 1906, that you desire to hold in the form of rupees, instead of uncoined blanks, the silver portion of the Gold Standard Reserve, and to be permitted to take temporary loans from the Reserve at $3\frac{1}{2}$ per cent interest when the necessity arises for strengthening your Treasury balances at short notice

2 I approve the former proposal I also agree that the silver in the Reserve may properly be used for strengthening your Treasury balances in an emergency, even when you are not able to pay into the Reserve the equivalent in gold of the amount withdrawn, and a suggestion to that effect was made in my telegram of 30th October If at such a time the state of the Home Treasury balances does not permit of my investing on account of the Reserve a sum equivalent to the amount withdrawn in India, the best course will be to treat as a loan, in the manner proposed by you, the amount withdrawn In that event the total assets of the Reserve will be shown in the published statements as consisting partly of securities, partly of money due from your Government, and partly, perhaps, of silver To include a large debt from your Government as one of the assets of the Reserve is a course not free from disadvantage I should agree to it in such circumstances as I have described above, but I am of opinion that ordinarily an investment in securities on behalf of the Reserve should be made, if the state of the Home Treasury balances admits, in order to make good amounts withdrawn in India When investments of this nature are made in England, Treasury bills can be bought so that if, at the time of their maturity, you are prepared to restore the silver in the Gold Standard Reserve to its former amount, the Home Treasury balances can at once be replenished without the risk of loss of capital value You should, therefore, inform me in good time whenever you contemplate a transfer of silver from the Reserve to your Treasury balances, in order that I may consider on each occasion whether to make an investment in this country in respect of the whole or a part of the withdrawal

I have, &c,
(Signed) JOHN MORLEY

Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 30th November 1906

I am selling telegraphic transfers at the price of $1/4\frac{5}{32}$ Do you see any objection to my selling freely ?

Telegram from VICEROY, dated 4th December 1906

Your telegram dated 30th November You may sell telegraphic transfers aggregating Rs 1,00,00,000 on 5th and 12th instant, on the understanding that you do not sell in each week bills and transfers amounting together to

more than Rs 1,20,00,000 We shall be glad to have a further telegram in case you propose making heavy sales of transfers after the 12th December, as it may not be in our power to meet them

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Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 5th December 1906

Telegraphic Transfers Your telegram of yesterday In spite of sale of 50 lakhs to-day the demand seems likely to be strong It seems desirable that I should sell freely, even beyond the limit which you mentioned, if necessary, in order to avoid inconvenience to trade by restricting sales, and that you should follow the course approved in my Despatch No 135 of 16th November, and borrow from the silver portion of Gold Standard Reserve to supplement your balances Please reply on Thursday, and, if you agree, state how much I may sell each week in Transfers up to the end of 1906, and how much in Bills

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Telegram from VICEROY, dated 6th December 1906

Telegraphic Transfers Yours 5th December Unless serious emergency arises in India, we are very unwilling to borrow from silver branch of Gold Standard Reserve Present demand should, in our opinion, be met by sale in London of Telegraphic Transfers against Currency, the proceeds being placed in your Currency Chest

Until our November balances are compiled on the 10th instant, we cannot supply you with the weekly estimates desired We will telegraph on the 10th or 11th, and in the meantime we agree to your offering for sale at once the 50 lakhs of Telegraphic Transfers which we agreed might be sold on the 12th instant

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Telegram from VICEROY, dated 7th December 1906

Telegraphic Transfers As extreme stringency exists in the money market here, with possibility of serious panic, we should like to make an announcement on 8th instant that the Secretary of State will during the next three weeks, be prepared to sell transfers freely without restriction up to the amount advertised, and beyond it to such extra amount as you think will be possible We must, if this action is taken, transfer silver from Gold Standard Reserve unless you can come to our assistance by selling against Currency Please reply to-day whether you agree

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Telegram to VICEROY, dated 7th December 1906

Telegraphic Transfers Your telegrams of 6th and 7th instant Announcement may be made in India that Secretary of State is prepared to sell transfers freely at rates not exceeding 1s $4\frac{3}{16}d$ —the present rate for specials You should strengthen your balances in case of need by borrowing from the silver portion of the Gold Standard Reserve and let me know the amount of such loans For various reasons I wish to avoid addition of gold to Currency Reserve in London This would, for example, entail diminution of reserve of Bank of England and, by its effect on discount rates in London, would probably interfere with arrangements for renewing debentures of Guaranteed Railways maturing in December

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Telegram from VICEROY, dated 8th December 1906

Telegraphic Transfers Announcement in the terms of your message dated 7th December has been made, but it is necessary to state clearly that we shall not be able to meet your drawings without limit That is to say, we cannot meet them to an extent of more than 4 crores in December besides paying all the transfers and bills already drawn by you, even if we completely

use up the silver in the Gold Standard Reserve. Payments on this scale, which would, we are convinced, exhaust our only available reserve, are most strongly to be deprecated. We may possibly also be obliged to grant a loan to the Bank of Bengal. We therefore venture again to press you to draw against Currency. If, as is unavoidable, your total drawings must be restricted, it can make no difference to the Bank of England whether you adopt our suggestion or not, as in the latter case the Exchange Banks will be compelled to take gold from the Bank for shipment to India, involving delay and expense to trade.

Telegram from VICEROY, dated 10th December 1906.

Telegraphic Transfers. My telegram of 8th December. A loan of Rs 25,00,000 is being taken by the Bank of Bengal, and they will probably apply shortly for a further loan of the same amount. Money stringency continues in an acute form, and the four principal Exchange Banks at this Presidency have to-day approached us for assistance. Their request is that we should for the next three weeks advance to them Rs 60,00,000 a week on their conjoint security, and on their promising to repay us by purchasing telegraphic transfers when their bills are discounted in London.

We are not prepared to assist the Exchange Banks by making direct advances to them, but in the very exceptional circumstances which exist we are willing to help the Presidency Banks to finance them, and this we propose to do by making advances of Rs 40,00,000 a week for three consecutive weeks to the Bank of Bengal, requiring repayment of such advances three weeks after the dates when they are made.

Please inform us at the earliest possible date whether you agree to this proposal. It will have the effect of diminishing from 4 crores to 280 lakhs the amount of your drawings which we can meet without obliging you to draw against currency.

Telegram from SECRETARY OF STATE to VICEROY, Financial Department, dated 11th December 1906.

Telegraphic Transfers. Your telegrams 8th and 10th instant. We should, if possible, avoid transfer of currency to gold in London, at any rate until early in January. By then the holders of the debentures to which I referred in my telegram 7th December will have decided about renewing. If gold were transferred, the probability of refusals would be increased, and thus an inconvenient drain on my Treasury balances might be caused. The suggestion made in your telegram of 8th instant that gold might be shipped from London by Exchange Banks is very unlikely to be realised. Therefore, before I resort to drawing against Currency, loans from Gold Standard Reserve should be taken to a considerable extent. At the same time I recognise that it may ultimately be necessary for me to draw against currency. With reference to the question of helping the Exchange Banks by loans, the head offices tell me that they are prepared to supply their requirements in India by buying transfers and bills in the usual way, and that they have no knowledge of the application made by their Calcutta branches to you. This being so, it seems unnecessary for you to make special advances to the Bank of Bengal as suggested. Please keep me informed of the situation, and answer the following questions. (1) Do you wish me to buy more silver? (2) May I now assume that, if drawings against currency are not made, 400 lakhs is the limit of drawings that you can meet up to 31st December? (3) Is it the case, as I presume, that this limit covers only the bills sold on 12th December and transfers sold between 10th and 31st December, and that bills sold after 12th December, which will not be paid until January, are outside the limit?

Telegram from VICEROY, dated 15th December 1906

Telegraphic transfers Yours, 11th December We have dropped the scheme of special advances to the Bank of Bengal for assistance of Exchange Banks, having heard nothing further from them At present we do not require more silver On 13th instant, we borrowed from Gold Standard Reserve Rs 90,00,000 worth of silver, and are coining up the blanks now Probably we shall need to borrow the whole amount, which now stands at about 345 lakhs of tolas Rs 4,00,00,000 should be regarded as the limit of your drawings up to 31st December, and the figure should be taken to include bills sold on 12th December, and transfers sold between 10th and 31st In order, however, to keep down the number of bills which will have to be met here in early January, when our balances will be low, we should prefer that the greater portion of transfers drawn by you within the 400 lakhs limit should consist of regular sales

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Telegram to VICEROY, dated 18th December 1906

Your telegram, 15th December Before receiving it I had already given an order for silver to the value of half a million 135,000*l* of this has been purchased The remainder of the order can be cancelled if you wish it, but I think it would be preferable to complete it, thus beginning to make provision for repaying amount borrowed from the Gold Standard Reserve Please telegraph at earliest convenience what are your views

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Telegram from VICEROY, dated 18th December 1906

My telegram, 15th December A further loan of Rs 1,69,00,000 in rupees and blanks is being made from Gold Standard Reserve Are you making corresponding investments in London against these loans? Please telegraph reply

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Telegram from SECRETARY OF STATE to VICEROY, Finance Department, dated 20th December 1906

Your telegram of the 18th instant I am not making investments on behalf of the Gold Standard Reserve It is proposed to treat your withdrawals entirely as loans from the reserve, to be repaid by you in India

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Telegram from SECRETARY OF STATE to VICEROY, Finance Department, dated 20th December 1906

Purchase of silver My telegram of 18th December I have decided to complete the purchase of the 500,000*l* As the silver is bought it will be added to the Currency Reserve, and I shall thus be able to sell transfers against it over and above the limit of 4 crores What amount of transfers can you still meet from cash balances and Gold Standard Reserve independently of the 500,000*l* silver which I am purchasing as above mentioned, (*a*) between now and 28th December, (*b*) between 28th December and 4th January? Please telegraph reply It would be most desirable, if possible, not to transfer gold to Currency Reserve here before the 4th January

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Telegram from VICEROY, dated 20th December 1906

Silver Your telegram of 18th instant We agree that you should finish purchase of half-million sterling, but we do not anticipate that we shall want any more for the present, and we request that you will communicate with us before making any further purchase We shall be glad if you will, so far as convenient, now invest gold in England (as proposed in your Despatch No 135 of 16th November 1906), against the silver (1,800,000) which has been borrowed in India from the Gold Standard Reserve, letting us know from time to time how much has been invested

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Telegram from Viceroy, dated 22nd December 1906

Telegraphic transfers Your telegram of 20th December It is not possible for us to meet more than 25 lakhs up to 4th January, as already intimated It makes no difference whether this amount is drawn before 28th December or after that date

It will almost certainly be necessary for us, owing to your drawings of 120 lakhs on the 26th December, to ask you to assist us before 11th January through your Currency Chest, but details will be telegraphed to you later on

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Telegram from Secretary of State to Viceroy, dated 24th December 1906

Your telegram dated 20th December When the order for half a million pounds worth of silver has been completed, I will refer to you before making any further purchases

As regards loan from the Gold Standard Reserve, I recognise that, owing to my heavy drawings having reduced your balances, the necessity may eventually arise for investment in this country in order to make good the reserve, but, as indicated in my telegram of the 20th December, I prefer at present to consider your withdrawals purely as loans

Please notify me of your further borrowings from the Gold Standard Reserve

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Telegram from Viceroy, dated 24th December 1906

Gold Standard Reserve We have made a further transfer from it to Treasury of Rs 1,10,25,000 in rupees and silver bullion, in addition to the transfers already reported to you

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Telegram from Secretary of State to Viceroy, Financial Department, dated 27th December 1906

Telegraphic transfers As sales to-day amounted to over 90 lakhs, and as further sales will probably take place very shortly, I shall transfer 500,000*l* to Currency Reserve on the 28th instant (*See* your telegram of 22nd instant)

Telegram from Secretary of State to Viceroy, Financial Department, dated 1st January 1907

In continuation of my telegram, 27th ultimo To-morrow evening I shall transfer to Paper Currency Reserve an additional half-million sterling Until Thursday next this information should be regarded as confidential

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Telegram from Secretary of State to Viceroy, Finance Department, dated 9th January 1907

Telegraphic transfers I have to-day sold about 84 lakhs in ordinary sales of transfers, followed by 4 lakhs of specials Let me know as early as possible to-morrow whether you wish me to transfer more gold to Currency Reserve Will you further consider by what date a portion of the gold transferred to Currency can be released ?

Telegram from Viceroy, dated 10th January 1907

Your telegram of yesterday At present we shall not need transfer of more gold to Currency Reserve As regards the release of gold from Currency Reserve we shall in a day or two telegraph our views

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Telegram from SECRETARY OF STATE to VICEROY, Finance Department, dated 14th February 1907

Refer to your telegram 24th ultimo and Comptroller-General's 9th instant † If you find that my drawings up to the end of 1906-7 are too large for you to meet from your Treasury balances besides repaying to the Gold Standard Reserve 380 lakhs of rupees, I think a postponement of that repayment would be preferable to a transfer of gold to Currency Reserve in England My balances are at present earning interest at 4½ per cent, and the transfer would involve their reduction

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Telegram from VICEROY, dated 16th February 1907

With reference to your telegram 14th February Despatch now under issue, and also letter from our Financial Secretary which went on 14th instant, express our views on the repayment of loans from Gold Standard Reserve Since the present position is that supply of rupees in India is sufficient, while our and your balances combined are adequate for purposes of treasury, a continuance of the loan of silver from Gold Standard Reserve is not justifiable, nor, in our opinion, can comparatively small gain in interest secured to you thereby compensate for using the Reserve in a manner foreign to its avowed object We trust that you will, before the 31st March, give us the help necessary to restore the Reserve as early as possible, a matter to which we attach great importance

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Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No 66, dated 21st February 1907

SIR,

WE have had under consideration your Despatches No 85 (Financial), dated the 20th July 1906, and No 135 (Financial), dated the 16th November 1906, as well as the telegrams‡ recently interchanged on the subject of your drawings upon us during December 1906 In the course of the correspondence you have been unable to accept our recommendations upon two questions which have an intimate bearing upon our currency policy We are confident that you attach the same high importance as we do to maintaining the closest continuity in that policy, and it may be well that we should fully explain to you our views upon those points where we are apprehensive of innovation

2 The first matter to which we invite your consideration is our recent loan from the Gold Standard Reserve, from which we have had to transfer the whole of its silver branch to our treasury in order to meet your large issues of Telegraphic Transfers since the first of last month The importance of the Gold Standard Reserve as one of the main guarantees for the stability of our currency system is now fully recognised by the commercial public Its published accounts are subjected to scrutiny and criticism, and it is clearly incumbent on us to avoid any treatment of the reserve which might impair public confidence in its efficiency We consider it therefore most essential to treat the reserve as a fund which may be drawn upon for the specific

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* Telegram from VICEROY 24th January 1907

With reference to your telegrams 15th and 18th January We agree to your proposal to draw 42,000,000*l* Further, if you find it convenient to draw another 1,000,000*l* in Council Bills in two years to recoup the sums transferred to your Currency chest from your Treasury on 28th December and 2nd January, we should have no objection

Our present forecast admits of our meeting from our Treasury balances your drawings up to a maximum of 26,500,000*l* during 1906-07 This forecast excludes any further drawings on account of the purchase of silver from your Treasury But if during the current year you transfer gold to your Treasury from your Currency chest you should reduce by an equal amount your drawings in 1906-07 against our Treasury balances If during 1906-07 you draw more than 26,500,000*l*, it may be necessary to ask you to help us through Currency, in order to strengthen our balances

† Telegram from COMPTROLLER GENERAL, 9th February 1907

Cash balances in Indian Treasuries at close of last month, Rs 12,95,00,000 Estimated balances 28th February next, Rs 13 75 00 000, 31st March next, Rs 13 00 00 000 Estimate of Council Bills payable, including telegraphic transfers against gold in transit to England February, 500,000*l* March, 300,000*l* Estimate assumes repayment India 380,000*l* Gold Standard Reserve, and purchase 1,000,000*l* silver February, March, from Home Treasury branch

‡ Beginning with your telegram dated 30th November 1906, and ending with your telegram dated 1st January 1907

purposes for which it was established, and for no others It would be in full accord with the declared objects of the reserve that you should draw on its gold branch to support your treasury in the event of any material fall in exchange, or that we should draw on its silver branch when threatened by a shortage in our stock of rupees in India In the former event we should recoup the reserve by paying silver into it in India, pending a suitable opportunity for an equivalent remittance of gold to England The procedure to be observed in the latter contingency was explained in our Despatch No 141, dated the 26th April 1906, and we desire to adhere in their entirety to the principles there laid down To employ the reserve, however, for any other purpose than those indicated above is, in our opinion, to be deprecated as a variation from our currency policy which may seriously weaken it and would certainly be liable to general misconstruction

We have not overlooked the fact that, in October last, we asked your consent to borrow from the Gold Standard Reserve in case of emergency We consider that, under certain conditions, it would be permissible to take a loan from the reserve, just as we might do from a Native State But we entirely accept your views of the disadvantages of such action Moreover, we see equally strong objections to taking a loan, as you have suggested,* against an investment on behalf of the reserve in England, for an arrangement of this nature would imply that you held spare funds in your home treasury, with which you could assist us either directly, or by a remittance through Currency, or by the purchase of silver for shipment to us When a sterling investment is made in the Gold Standard Reserve against a corresponding withdrawal from its silver branch, the fact indicates that circumstances have arisen which justify us, not in taking a temporary loan from the silver branch, but in using it outright, leaving it to be built up again in the usual way from the profits of new coinage

3 Holding these views, we cannot but regret the necessity for utilising the whole of the silver in the Gold Standard Reserve during last December The occasion was not one for calling up the reserve in defence of our currency stock of silver We were suffering at the time from no shortage of rupees, as our currency reserve had close on 17 crores at the beginning of December and would not have fallen below 13½ crores, even if it had received no assistance from the Gold Standard Reserve, by the end of the month We had thus an ample supply to meet all requirements for trade remittances, and no occasion for using the silver outright had therefore arisen Nor was it an occasion for borrowing from the reserve In our judgment, that course is, as a rule, only justifiable when we are confronted with a shortage of rupees, which is of a strictly temporary character, likely to be made good within a moderate time without resorting to new coinage These conditions did not obtain on the present occasion It is true that our treasury balances were low, but our resources as a whole were well over the margin of safety, and the position contained no element of crisis such as would ordinarily have forced us to seek for a loan The compulsion arose from the tightness of money in the London market, and from your apprehension of difficulty in renewing the guaranteed railway debentures which matured during the month These considerations apart, it would apparently have been within your power to assist our treasury balances by transferring gold to your currency chest,† or to relieve the pressure upon them by drawing upon our Currency Reserve We recognise the difficulties of the position, which were aggravated by an abnormally keen competition for money in India happening to coincide with great stringency in the London market But, on the other hand, we would urge the grave disadvantages of any action which would interfere with the development or shake the credit of our currency system

4 The second question which we would ask you to reconsider concerns the proper use and functions of the gold which you hold in London on behalf of our Paper Currency Department In your Despatch of the 20th July 1906, you demurred to our view that your currency chest might be depleted without scruple, so long as its contents were employed in the purchase of silver You considered that a substantial holding of gold in the treasury balances and

* Despatch No 135 (Financial) dated the 16th November 1906, page 146

† Under section 13 of the Indian Paper Currency Act, 1905

currency reserve helps to maintain confidence in the Gold Standard and the stability of exchange And you were prepared, rather than allow our total stock of liquid gold to fall below 6,000,000*l*, to refrain from renewing some of the short term investments of the Gold Standard Reserve, and to place their proceeds in your treasury The necessity for such a step fortunately did not arise, and the conditions of the money market subsequently disposed you to diminish, if possible, rather than increase, our stock of ear-marked gold in England

5 The purpose for which a currency chest was opened in London was described in Mr Brodrick's Despatch No 41 (Financial), dated 7th April 1905 The gold was to be held at the Bank of England "so as to be imme- " diately available for the purchase of silver whenever the need for additional " coinage may arise" Your predecessor added that another advantage of storing the gold in England would be the possibility of using it to replenish the balances of the Home treasury against an equivalent transfer in India of rupees from our Treasury to the Currency Reserve The latter function of the ear-marked gold was clearly meant to be subsidiary to its use, when required, for the prompt purchase of silver Experience has justified this view, you have not yet been compelled to supplement your balances by currency gold whereas we have had to send you constant and urgent indents for silver to meet the heavy demand for rupees in India The emergency for which the currency chest was created continues to recur The great activity in trade, and the hoarding of rupees which always accompanies general prosperity in this country, make it imperative that we should be able to effect large purchases of silver at short notice The currency chest in London, which can be replenished as the State of the Treasury balances permits, would enable us to carry out those purchases without any delay or difficulty in providing the gold to pay for them But if, at times when exchange is firm, we are debarred from using it for this purpose, it ceases, in our opinion, to perform the chief function for which it was established

6 We readily accept your view that a large stock of gold in London has a valuable influence in steadying exchange It is precisely with this object that the funds of the Gold Standard Reserve are invested in England in the most easily convertible forms of gold securities We have frequently been pressed to hold a portion of the reserve in liquid gold, and this is an arrangement which may ultimately be feasible, though we are not convinced of the necessity for it under ordinary conditions, and we prefer, while the reserve is being built up, to let it earn all the interest it can But, whether it is held in gold securities or in a liquid form, the Gold Standard Reserve is our first line of defence against a fall in exchange So long as it is adequately maintained, the exact amount of gold in your currency chest has always seemed to us to be a matter of relatively minor importance The public know that the currency gold in London is ear-marked for a particular purpose, that it is part of a fund reserved by law to ensure the convertibility of our note issues, and consequently that it is liable to considerable fluctuations The Gold Standard Reserve, on the other hand, exists solely for the purpose of maintaining exchange, and is universally identified with that part of our currency policy We should especially regret any decision to realise the securities of the Gold Standard Reserve in order to recoup your Treasury balances for the purchase of silver In our opinion, a withdrawal of gold from the Gold Standard Reserve for this purpose would have a far worse effect on the public mind than a reduction in your stock of currency gold The purchase of silver is a legitimate function of your currency chest, but it is entirely foreign to the objects of the Gold Standard Reserve

7 On all these grounds, therefore, we trust that you will be able to agree with us that the currency gold in London may be freely drawn upon for the purchase of silver when we require it, being recouped, whenever convenient from the proceeds of extra Council Bills We shall probably need considerable supplies of silver between now and next September But we need not remind you of the strength of our gold position You hold 6 millions for us in your currency chest We have nearly 5 millions in gold in India, and though this amount will now diminish through your interception of gold in transit to us, it will rapidly grow again when you cease your purchases from Australia Finally, the investments of the Gold Standard Reserve in

England have risen to about 12½ millions Their growth has been temporarily arrested by the building up of the silver branch of the reserve, but we expect that branch to reach its limit of 6 crores by the end of the current financial year, after which all further profits on our rupee coinage will go to increase the volume of the gold investments,

We have, &c,

(Signed) KITCHENER
DENZIL IBBETSON
H E RICHARDS
E N BAKER
H ADAMSON
J F FINLAY

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No 62, dated 26th April 1907

MY LORD,

I HAVE considered in Council your letter of 21st February 1907, No 66, explaining your views on certain matters relating to the Gold Standard Reserve and the Paper Currency Reserve

2 You express your regret at the decision conveyed in my telegrams of 5th and 7th December 1906, that a part of the additional funds required by you in the course of the last busy season, to enable you to meet bills and telegraphic transfers, should be provided by a temporary loan from the silver portion of the Gold Standard Reserve You would have preferred that I should provide for the necessary addition to your Treasury balances by transferring gold in London to the Currency Reserve, thus enabling rupees to be taken from the Indian portion of that reserve

3 Before dealing in detail with your objections to the course actually pursued, I wish to remind you of the circumstances in which it was decided to adopt it in December last The London money market was at that time suffering from severe stringency, and it was a matter of direct and immediate importance to India that this should not be increased, since guaranteed debenture bonds amounting to 1,795,100*l* were to fall due between 31st December 1906 and 18th February 1907, of which it was very desirable that 1,374,600*l* should be renewed The chance of the renewals being effected on favourable terms depended on the state of the money market, and would have been prejudiced if the market had been disturbed by a transfer of gold from the reserve of the Bank of England to the Paper Currency Reserve The advantage of avoiding such a transfer was therefore considerable, and it appeared to me that the only counterbalancing disadvantage was that mentioned in my Despatch No 135, of 16th November 1906, viz, that in the published accounts of the Reserve its assets would for a time be shown as consisting partly of a debt due from your Government Neither your resources nor the conditions affecting Indian trade could in any way be unfavourably affected After careful consideration, I came to the conclusion that the advantage of taking a loan was far more important than the one disadvantage

4 You now submit that the course pursued was open to objection on various grounds other than the one which I have mentioned

5 One ground of objection is that to take a loan was at variance with the objects for which the Gold Standard Reserve was established, and involved a departure from the procedure mentioned in your Letter of 26th April 1906, No 144 These statements are, of course, correct, but they take no account of the fact that, since the establishment of the Reserve in 1901, it has been decided, in the light of experience, to make important modifications in the purposes for which it is to be used and (as a necessary consequence) in the procedure to be followed The original object of the Reserve was to provide for a reduction, temporary or permanent, of the amount of rupee currency in circulation when this should be required to prevent a fall in exchange The first change was made when it was decided last year, on the recommendation of the Government of India and with my complete concurrence, as expressed in my Despatch No 57 of 25th May 1906, to hold a portion of the fund in

silver, to be used for an entirely different purpose, viz, for rapidly increasing the rupee circulation at times of trade activity It was then intended that the Reserve, whenever a withdrawal took place from the silver portion, should be simultaneously replenished by the transfer of gold from the Paper Currency Reserve, and the procedure that was contemplated (as described in your Letter of 26th April 1906) was in accordance with this intention A second change was made when it was decided in my Despatch of 16th November 1906, No 135, in accordance with a recommendation made by you, that in case of need a loan should be taken from the silver portion This necessarily involved a modification of the procedure mentioned in your Letter of 26th April 1906 I fully recognised this fact at the time, and I assumed that it was also recognised by Your Excellency's Government These successive alterations were made after the most careful consideration, and, in my opinion, were very valuable improvements It seems to me that no valid objection to taking advantage of them can be founded on the fact that this cannot be done without a departure from what was contemplated before their introduction

6 The second ground of objection to the course which I decided to adopt is that it is a variation from your currency policy "which may seriously "weaken it, and would certainly be liable to general misconstruction" I should regret doing anything likely to create apprehensions in the public mind regarding the stability of the currency system, but it appears to me that, if they exist in the present instance, they are without justification I could indeed understand that the decision arrived at in May 1906 to hold a portion of the Gold Standard Reserve in silver might be represented as affecting the stability of the currency system, since one result of it was the temporary suspension of the accumulation of the sterling fund which is kept up for the support of exchange But that decision having once been arrived at and carried into effect, I am unable, after the most careful consideration, to understand how the stability of the currency can be regarded as having been threatened by the further decision to use the silver portion of the reserve, at a time of great demand for rupees, in a manner which left absolutely unaffected the existing safeguards against a fall in exchange

7 I understand that your practical recommendation for the future is that loans shall not be taken from the Gold Standard Reserve except at a time when the Home Treasury balances are so low that it is impossible for me to transfer gold to the Currency Reserve in this country I shall, of course, bear your wishes in mind on any occasion when the method of replenishing your balances has to be decided, but I am unable to accept the suggested restriction as one which should invariably be observed I am of opinion that the choice between "earmarking" gold and borrowing from the Gold Standard Reserve must in each case depend on the circumstances of the time

8 On the other matters dealt with in your letter I am substantially in agreement with you

9 In paragraph 2 you express your objection to a suggestion made in my Despatch No 135 of 16th November 1906, viz, that, when silver is borrowed from the Gold Standard Reserve, sterling securities should ordinarily be purchased in its place Your objection is largely based on your views as to the circumstances in which a loan from the Reserve is justifiable, but, in spite of my inability to accept those views, I am willing to agree that, in the event contemplated, no investment shall be made, and the transaction shall be treated as a loan pure and simple, to be repaid from your balances when they have been replenished by the purchase of silver or otherwise

10 In paragraph 7 you urge that the gold held in the Currency Reserve in this country may be freely used for the purchase of silver when required I accept this view, subject to the qualification that it is ordinarily desirable that the combined stock of gold held in England and India (and in this connection the distinction between the two portions is of small importance) shall not be allowed to fall unduly low The remarks on this subject in my Despatch No 85, of 20th July 1906, were made in reply to your suggestion that the total, which had fallen in five months from about 12,000,000*l* to about 7,000,000*l*, could without disadvantage be allowed to fall as low as

O 2

3,500,000*l* Holding the opinion, which you evidently share, that it is necessary to have regard to the effect on the public mind of your currency transactions, I thought that it was desirable to avoid so large a decrease in a comparatively short period, and that the realisation of a portion of the securities of the Gold Standard Reserve would be the less of two evils There must always be room for difference of opinion when a choice has to be made between alternatives of this kind, and it is satisfactory that the building up of the silver portion of the Gold Standard Reserve has considerably reduced the probability of the recurrence of a situation necessitating such a choice

I have, &c,

(Signed) JOHN MORLEY

INTERIM REPORT of the COMMITTEE on INDIAN RAILWAY FINANCE, &c (Submitted in June 1907)

The Committee have considered the letter from the Government of India, No 28 (Railway), dated 25th April 1907, proposing the formation of a central reserve of wagons for use on railways in India, which has been referred to them by the Secretary of State for India In view of the urgency attached to the matter by the Government of India, the Committee have judged it advisable to deal with the letter without delay, and they accordingly submit the following recommendations

The proposal of the Government of India, briefly stated, is that, in addition to the expenditure provided for in the Railway Programme, a sum of 3,000,000*l* should be spent within the next two or three years in the purchase by the State of 12,000 wagons, to be held as a reserve from which the loan of vehicles to any railway requiring additional stock could be made The reasons given for this proposal are that it has been demonstrated that the Indian railways are at present unable to carry traffic which is offered, that it will be some time before each railway can be fully equipped to meet normal demands, and that it is moreover desirable to provide against extraordinary demands for wagons, which may always be expected to arise at different seasons

Enquiries already made by the Committee confirm the conclusion of the Government of India that the existing equipment of Indian railways is inadequate, and they consider it essential that efforts should be made to improve the position as rapidly as possible But the following reasons prevent them from recommending the adoption of the particular method proposed by the Government of India (1) A central reserve of wagons would be a new departure, and it is therefore probable that before it could be established and fully utilised, delay would occur owing to the necessity for settling important questions requiring mature deliberation, (2) the Committee have reason to believe that the Railway Companies would prefer that any extra funds which can be made available for railway purposes this year should be allotted to the railway administrations in accordance with their requirements The Committee are of opinion that the latter course is the more advantageous and recommend its adoption

With regard to the method by which it may be possible to obtain additional funds beyond those already arranged for under the Railway Programme, it is evident, from figures which have been placed at the disposal of the Committee by the Financial Department of the India Office, that it will not be safe to anticipate that the sum which can be borrowed by the Secretary of State for India in this country during the present year is capable of being increased beyond the amount entered in the Budget estimate, viz, 7,675,000*l* (leaving out of account the liability in respect of debentures for 2,500,000*l* maturing during the year) But they have had under consideration the question of the advisability of using a portion of the current year's profit on the coinage of silver for capital expenditure on Indian railways instead of investing it in British Government securities

The object of the Gold Standard Reserve, to which the profit on coinage is credited, is to enable the Government of India and the Secretary of State to meet their sterling obligations in the event of a falling off in the demand for Council Bills This Reserve at the present time consists of sterling

securities of the market value of 12,310,629*l*, together with a sum of six crores of rupees (equivalent to 4,000,000*l*) which is held in silver in India to meet any sudden demand for coinage. In addition to the Gold Standard Reserve, there is a large amount of gold (11,066,000*l*, of which 7,705,000*l* is held in London and 3,361,000*l* in India), in the Paper Currency Reserve, which could be applied to the same object. Apart, therefore, from the six crores of rupees in silver, there is at the present moment a fund of upwards of 23,000,000*l* in sterling securities and gold bullion which could be drawn upon in case of necessity.

The interest received on investments on account of the Gold Standard Reserve between the present time and the 5th January 1908 will, it is estimated, be about 270,000*l*, while the profit on the coinage of silver up to the 31st December next is provisionally estimated at 1,850,000*l*. The addition to the Reserve by the beginning of next year would, therefore, in ordinary course amount to considerably over 2,000,000*l*, bringing up the total amount of gold and sterling securities held in the Gold Standard Reserve and the Paper Currency Reserve to more than 25,000,000*l*.

Having regard to the satisfactory position which the gold reserves have now attained, as shown by the foregoing figures, the Committee are of opinion that it could not be regarded as imprudent to invest 1,000,000*l* of the profit on coinage for the present financial year in Indian railways, and they therefore recommend this course to the Secretary of State.

It is a matter of urgency that any additional funds which are available should be immediately placed at the disposal of the railways, and the Committee would therefore suggest that a telegram be sent to the Government of India, in reply to their letter of the 25th April last, informing them that the consideration of the question of the creation of a wagon reserve is postponed for the present, but that a further sum of 1,000,000*l* may be at once allotted to the several railways in such proportions as the Government may deem desirable, either for the provision of additional rolling stock or for the improvement of open lines to enable them to deal with traffic more expeditiously, thus bringing the total allotment for 1907-8 up to 10,000,000*l* sterling. If this is done, the Government of India should be informed that the additional million which it is decided to allot will be supplied from the profit on coinage during the current year, and will be treated in account as an investment for the Gold Standard Reserve.

(Signed) J. L. MACKAY (*Chairman*)
W. R. LAWRENCE
F. O. SCHUSTER
D. M. BARBOUR
6th June 1907. L. ABRAHAMS

Telegram from SECRETARY OF STATE to VICEROY, Commerce and Industry Department, dated 11th June 1907.

Your Railway letter No. 28, of 25th April 1907. I referred your proposals to the Railway Committee mentioned in my Despatch No. 57, Railway, of 24th May last. They recommend that the sanctioned capital outlay for 1907-08 be increased by an additional 1,000,000*l* to be spent on rolling stock and open line improvements, subject to the following conditions:—

(1) That this extra grant is not used to form a reserve of wagons, but allotted to railway administrations, as this course will enable stock to be brought more expeditiously into use, and will be more acceptable to companies.

(2) That the money is provided from the profit on coinage in 1907-08, the amount being shown among other balances of the Gold Standard Reserve in Account No. 91A of the Finance and Revenue Accounts.

The reasons for the second condition are, firstly, that the amount still to be borrowed in 1907-08 for expenditure already sanctioned exceeds 4,000,000*l*, and it must be regarded as impracticable to borrow more; and, secondly, that no risk to the position of exchange is involved by the proposal

in view of the present amount of the Gold Standard Reserve, and of the additions estimated to be made to it this year, see your telegram of 18th May last, and of the large sum held in gold in the Paper Currency Reserve

If you agree generally with these recommendations, which I am in favour of accepting, you may at once proceed with the allotment of the money to the Railway Administrations

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Telegram from VICEROY, dated 24th June 1907

Please refer to your telegram dated the 11th June 1907, regarding rolling-stock Respecting the Committee's first condition, we greatly prefer the formation of a central reserve of wagons to the distribution among railway administrations of an extra grant Reference is invited to remarks on rolling-stock in Financial Statement, 1906-07, Appendix 3, in addition to reasons explained in our Despatch, dated 25th April, paragraph 6 To meet seasonal demands for rolling-stock lasting a short time, the creation of a wagon reserve will be more efficacious Seasonal shortages will not be permanently provided against by the distribution of additional rolling-stock, whereas a permanent solution will be found in a central reserve worked, as we intended, not as a part of current requirements, but as a reserve Reconsideration of this first condition is very strongly urged, but if you still adhere to it, we will agree

Great importance is attached by us to the supply during the current year of extra rolling-stock to the amount of 1,000,000*l* Should distribution be decided upon please consider whether the more expeditious method would not be to carry out Indent No 11, Railway, enclosed with Railway letter of 25th April, No 95, and to distribute to railways on completion, rather than to allot grant to administrations and leave them to arrange by "repeat" orders and otherwise for the supply of rolling-stock required We wish you to follow the course you consider quickest in this respect On receipt of your reply, distribution of extra grant among railway administrations will, if necessary, be telegraphed

Regarding the second condition, we expect to address you soon proposing that the Gold Standard Reserve investment from profits on coinage shall be discontinued on these investments reaching 20,000,000*l* We are of opinion that even if we could agree to your proposal, it will be necessary, having regard to the public criticism on formation of silver branch of the Gold Standard Reserve, to inform the public of the decision and to give the reasons for it We are, however wholly opposed, until the 20,000,000*l* figure is reached, to any diversion of the profits on coinage from their essential object, namely, the building up of the Gold Standard Reserve until it is sufficiently large to be a reasonably certain protection against the danger of a fall in exchange Security of our currency policy is in our emphatic opinion, of paramount consideration and should on no account be sacrificed even to the present necessity of the railway programme Increase of sterling borrowings is, you say, impracticable beyond the four millions which you still require this year We would, however, observe that if an issue of another million in India Bills or Stock were made, and the price of issue thereby lowered by three points, the total loss would only amount to 30,000*l*, and that this amount would be exceeded on a total Home remittance of 20,000,000*l* if rate of exchange fell by $\frac{1}{16}d$ In the event of the balance of trade becoming endangered and an ample margin in the Gold Standard Reserve not available to fall back upon, the rate of exchange might easily fall by much more than $\frac{1}{16}d$

Telegram from SECRETARY OF STATE to VICEROY, 2nd July 1907

Please refer to your telegram regarding rolling-stock dated the 24th of June I have decided, after considering the matter most carefully (1) regarding the distribution of rolling-stock, to adhere to the first condition as contained in my telegram to you dated 11th June, and (2) that unless funds are provided from the Gold Standard Reserve, no extra expenditure can be incurred It is impracticable to continue further borrowing, not in view of an increased rate of interest or discount, which may be disregarded as of no

importance, but for the reasons which I give below Investors who purchased India Stock in May last would be injured by a second issue in the current financial year, and such issue would prejudice our opportunity of borrowing sufficient for our needs in 1908-09 and in the following years In view of the condition of the London investment market and its consequence in compelling His Majesty's Government to postpone certain loans which they had in contemplation, it is practically certain, as regards India Bills, that a considerable amount of these will have to be issued in order to make up the deficiency which has arisen in consequence of the impossibility of issuing Railway bonds or debenture stocks to the amount which had been arranged for in the Budget To increase the amount of these bills that will have to be issued would be imprudent in the highest degree

In regard to the limit of borrowing in London, I must ask you to accept my views, just as I accept yours regarding the amount of borrowing to be undertaken in India Unless further capital, as to the urgency for which I agree with Your Excellency, can be provided from the Gold Standard Reserve, additional expenditure must be abandoned

The danger, which you allege, of a fall in the rate of exchange I regard as illusory, having regard to the present conditions of trade, the amount of securities in the Gold Standard Reserve, and of gold in the Currency Reserve Strength will be afforded to the exchange position by the increased facilities for the carriage of productions The maintenance of the value of the rupee is secured by the ample provision already existing, but, until the amount of 20,000,000*l* in sterling securities is reached I am quite willing to continue adding one-half of the profits on coinage, together with all the interest on the investments now existing, to the Gold Standard Reserve

Having regard to the considerations given above, I shall take the necessary steps to comply with the Indent of the 25th April 1907, No 14, Railway, and shall distribute in accordance with your recommendations

Early steps will be taken to announce this decision

Question in Parliament, 9th July 1907

Sir Edward Sassoon (Hythe) I beg to ask the Secretary of State for India what is the present position of the Gold Standard Reserve, and whether he intends to continue indefinitely the practice of adding to it the whole of the profit on coinage

Mr Morley Up to 31st March 1907, 12,518,513*l* derived from the profits on coinage and from interest had been invested in British Government securities on behalf of the Gold Standard Reserve and 4,000,000*l* was held in rupees in India The profit to be realised in 1907-08 will, it is anticipated, be considerable, though the exact sum cannot of course be stated at present In view of the amount of the reserve and of the large stock of gold (about 10,500,000*l*) held by the Government of India and the Secretary of State in Council in the Paper Currency Department and elsewhere I have decided that the present practice of adding to the Reserve the whole of the profit on coinage and of the interest on securities already purchased may be modified From the present year and until the Reserve reaches 20,000,000*l* one-half of the profit on coinage together with the interest on securities will be added to the Reserve, and the other half of the profit will be used to supplement the funds available for capital expenditure on Indian railways This decision, which is based on a recommendation made by the Departmental Committee on Indian Railways, has enabled me to sanction an addition of 1,000,000*l* to the programme of capital expenditure for the present year The additional expenditure will be devoted to improving the equipment of open lines

Sir Edward Sassoon What amount will be available for increased railway expenditure?

Mr Morley I cannot say off-hand

Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No 296, dated 8th August 1907

SIR,

We have the honour to refer to the telegraphic correspondence ending with your telegram of the 2nd July on the subject of the purchase of additional rolling-stock, and also to your announcement in the House of Commons on the 9th July regarding the employment of part of our coinage profits for expenditure on Railways

2 As intimated in our telegram of the 24th June, we intended to address you, reviewing the present position of the Gold Standard Reserve and the attitude of the commercial public in regard to it and submitting for your consideration the following definite proposals —

(1) That the investments of the Gold Standard Reserve should continue as at present until they reach a total of 20,000,000*l* ,

(2) That, when that figure is reached, the investment of profits on new coinage should cease, but the investment of the interest on the securities previously purchased should continue until the total investment reaches 27,000,000*l* ,

(3) That, when that figure is reached, the question of further accumulation should be specially considered,

(4) That the funds made available by stopping the investment of the profits as above, should be used in reduction of our borrowings for railway and irrigation expenditure

3 From the report of your announcement in Parliament, we understand that on the advice of the Committee which was recently appointed to consider the question of Railway finance, you have decided on a different course We do not therefore propose to trouble you with the reasons which led us to the conclusions outlined above We accept your decision, although some of us entertain doubts as to its expediency, and although we should all have preferred if it had been possible to give the commercial community in India an opportunity of stating their opinion regarding the diversion of coinage profits before final orders were issued

4 We forward for your information a copy of a letter which we have received from the Chamber of Commerce, Bombay, regarding the policy on which you have determined, and of the reply which we have sent to that body

We have &c ,

(Signed) MINTO
KITCHENER
H E RICHARDS
E N BAKER
C H SCOTT
H ADAMSON
J F FINLAY
J O MILLER

Enclosure No 1

No 587, dated 11th July 1907

From J B Leslie-Rogers, Esq , Secretary, Bombay Chamber of Commerce, to the Secretary to the Government of India, Finance Department

I am instructed by my Committee to address you with reference to information that has been published that the Railway Board is to receive another million sterling this year for the purchase of Rolling Stock and that this amount will be taken from the profits on coinage accruing this year which otherwise would have gone to swell the investments in the Gold Standard Reserve

2 Although a further increase of Rolling Stock is most necessary, my Committee cannot but view with very grave apprehension the decision just arrived at that, as stated on the 9th instant in the House of Commons by the

* Your telegram dated the 11th June 1907 Our telegram dated the 24th June 1907 Your telegram dated the 2nd July 1907 (pages 157–8)

Right Honourable the Secretary of State for India, the funds for this purpose are to be provided from the profits on coinage These, it has always been understood, as recommended by the Indian Currency Commission of 1898, were not to be diverted to any channel other than that of the Gold Standard Reserve, which was formed to guarantee our silver rupees on the basis of an exchange of 1s 4d, and although a fairly large sum has been accumulated and invested for this purpose, my Committee do not consider that a point has yet been reached which guarantees absolute safety as regards the currency, or which would warrant even a temporary cessation of payments to the fund from the only source from which it can be augmented

The question of diverting payments from the Gold Standard Reserve is not one, it appears to my Committee, that should be considered merely from the point of view of the position at the moment being satisfactory and of there being no likelihood for the present of the fund already invested being brought into use It is, they hold, a fund which guarantees the determination of the Indian Government to maintain the gold value of the Rupee, and this being so it seems to my Committee as only too likely that any deviation from this purpose, and the uncertainty that will always afterwards exist even after the Reserve has reached 25,000,000*l* that a further large sum may be allocated at any time, and locked up in investments which are not liquid, will cause the public, not only in this country but in England also, to regard the currency policy of Government as on too unstable a basis, and if this should be so, confidence in the future may be shaken and the loss of credit to the country would become a very serious matter My Committee do not propose at this juncture to deal with the possibility of further allocations from this fund after a total of 25,000,000*l* has been reached for any object which may appear to Government of an urgent nature They merely desire to point out that the Gold Standard Reserve Fund was formed for a definite object, and that until the invested portion of this Reserve has reached a very much larger figure there should in their opinion be no attempt on the part of Government to divert funds for other purposes, however urgent such purposes may be

Enclosure No 2

No 4927-A, dated 8th August 1907

From J S Meston, Esq, I C S, Secretary to the Government of India, in the Finance Department, to the Secretary to the Bombay Chamber of Commerce

I am directed by the Governor-General in Council to reply to your letter of 11th July, in which the Committee of the Bombay Chamber of Commerce criticise the decision of the Government to take from the profits on coinage accruing this year the additional million sterling which it is proposed to spend on the purchase of rolling stock The exact decision was that, from the beginning of the current financial year and until the sterling investments of the Gold Standard Reserve reach a total of 20,000,000*l*, the profits on coinage, which have hitherto all been invested in sterling securities, shall be so invested in the future to the extent of one-half only, the other half being appropriated for railway capital expenditure, and that the whole of the interest on the investments will continue to be invested in sterling securities as hitherto

2 The Gold Standard Reserve was constituted in order to provide a fund to be used in time of need to prevent exchange from falling below 1s 4d, per rupee before its formation other measures having the same object, such as the accumulation of a stock of gold, had been adopted, and the establishment of the Gold Standard Reserve was in addition to those previous measures, and not in substitution for any of them It was decided that all the profits on coinage should be invested in sterling securities, to be sold out in the event of it being necessary to combat a tendency towards a fall in exchange Hitherto no specific limit has been fixed for the amounts of the sterling investments, but it has for some time past been recognised that the investments ought not to continue indefinitely, and that they should cease

when the amount shall be considered, in combination with the effect of the other measures adopted for the support of exchange, to be sufficient to secure with all reasonable safety the object for which the fund was created

3 The Government of India gather from your letter that the Committee of the Chamber of Commerce accept as correct the description of the nature and scope of the fund given in the preceding paragraph The only point of difference between the Chamber and the Government is on the question whether or not the limit mentioned has been reached Your Committee state that they "do not consider that a point has yet been reached which guarantees absolute safety as regards the currency" The Government of India entirely agree with the Chamber that the question should not be considered merely from the point of view of the position at the moment being satisfactory and of there being no likelihood of the fund being at present brought into use, and they accept your description of the fund as one "which guarantees the determination of the Indian Government to maintain the gold value of the rupee" The mention of the sum of 25,000,000*l* in your letter is not explained, but it is surmised that the Chamber consider that to be the point beyond which investments need not be continued, if that is so, the Government of India find difficulty in understanding the references made in your letter to uncertainty connected with further allocations from the fund after that total is reached

4 I am directed to invite the attention of the Chamber to the references to the subject made in the Budget Debate by the Hon'ble Mr Gokhale, the Hon'ble Mr Finlay and the Hon'ble Mr Baker Mr Baker in his speech said that "the time is approaching when it will be necessary to consider "whether any, and if so, what limit should be put on the amount of the "invested portion, and this question we shall take up without delay Until "that has been done, it will be premature and possibly embarrassing to make "any public declaration of policy" Since this statement was made, the question has been under consideration by the Government of India and the Secretary of State, and it was referred by Mr Morley for the opinion of the Committee recently appointed to deal with Railway finance, of which Sir D Barbour is a member The conclusions arrived at were, that ample provision for maintaining the value of the rupee already exists, that, in view of present trade conditions, of the amount of the sterling securities held in the Gold Standard Reserve, and of the amount of gold in the Currency and in the Treasuries, any danger of a fall in exchange is illusory, but that, as the question is one which cannot be determined with mathematical precision and as there is room for difference of opinion, one-half of the future profits on coinage shall continue to be invested in sterling securities until the total of the investments amounts to 20 millions sterling

5 In explanation of these conclusions I am to invite the attention of the Chamber to the fact that the investments of the Gold Standard Reserve are not the only provision which the Government of India have made for use in the event of it being necessary to check a tendency to a fall in exchange The Government also hold in the Currency Reserve and in the Treasuries a large stock of sovereigns These amount now to over 10,000,000*l*, and that stock of gold is equally available for the purpose of preventing a fall in exchange, notwithstanding that it might be brought into operation in a different manner from the Gold Standard Reserve itself The amount of the sterling investments of the Gold Standard Reserve is nearly 13,000,000*l* The Government have therefore available for the purpose of combating a fall of exchange a sum of about 23,000,000*l* It has been held by good authorities that the sum of 20,000,000*l* is enough to give a reasonable guarantee of safety against the risk of a fall in exchange The provision already made exceeds this amount by about three millions In view, however, of the fact that there is room for difference of opinion as to the exact amount of the limit, and as it is better in so important a matter to err on the side of caution, the Government decided to continue the investments to the extent of half the future profits on coinage until the amount in the Gold Standard Reserve alone reaches 20,000,000*l* When that limit is reached the total provision against the risk under consideration will amount to about 30,000,000*l* if the stock of sovereigns remains at its present level

6 In conclusion I am directed to say that in ordinary circumstances the Government of India would not have adopted the decision above described without first publishing their proposals and inviting the comments of Chambers of Commerce and other public bodies To have adopted this course on the present occasion, however, would have involved consequences which, it is believed, could not have commended themselves to the commercial public The urgent demands for additional rolling stock had led the Government of India to recommend to the Secretary of State that a large expenditure should be incurred in the next few years on the purchase of wagons, in addition to the amounts provided in the railway programme published with the Financial Statement The Secretary of State accepted the Government of India's view as to the urgency of this expenditure, and sanctioned an extra allotment of one million for this purpose in the current year The state of the London money market, however, rendered it inexpedient to raise that amount by sterling borrowing It was, therefore, necessary either to postpone the increased expenditure on wagons or to dispense with the consultation of public opinion in India on the question of the use of the Gold Standard Reserve, because of the delay which would have been involved The decision was to accept the latter as the lesser of the two evils

7 I am directed to express a hope that the Bombay Chamber of Commerce, in view of the explanations given in this letter, will come to the conclusion that the decision which they criticise will not involve the evil results which they fear

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No 131, dated 20th September 1907

MY LORD,

I HAVE considered in Council your Excellency's letter in the Finance Department, No 296, of the 8th August 1907, regarding the limit to be assigned to the accumulation of the Gold Standard Reserve and the purposes to which, after a certain limit has been reached the profits on the coinage of silver, or a part of them, should be applied

2 I am glad to note that up to a certain point your Government and myself are in substantial agreement on this question We are agreed that, after the value of the sterling investments of the reserve has reached a certain limit, their further accumulation may be restricted, and that the funds thus made available may properly be applied to the reduction of borrowings for railway expenditure We are further agreed that until the value of the sterling investments has reached 20,000,000*l* the whole of the interest on them shall continue to be invested in the same manner I note that you accept my decision that half the profits of coinage shall henceforth be used for capital expenditure on railways, though, I regret to observe, it is opposed to the views of some of the members of your Government, who would not have recommended that any part of those profits should be so employed until the 20 million limit has been reached

3 The profits from the coinage of silver have averaged in the last three years about 3,000,000*l* per annum Should they continue at approximately the same rate, and should the values of the existing investments of the Reserve be not materially altered, the effect of my decision will be to postpone by somewhat less than two years the date by which the limit of 20,000,000*l* will be reached

4 With reference to paragraph 2 (2) of your letter, I propose that the course to be followed, after the above total has been reached, should be reserved for further consideration when the value of the investments nearly approaches that limit

5 I take this opportunity of forwarding for the information of your Government, a copy of the interim Report of the Committee on Indian Railway Finance

I have, &c ,
(Signed) JOHN MORLEY

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* See p 156

Telegram from VICEROY, dated 20th November 1907

Financial Department We have been requested by the Exchange Banks to issue telegraphic transfers on you at the rate of 15 rupees to the sovereign In reply we have informed them that before giving any answer we must refer the matter to you The request, in the present state of Treasury balances, could only be met by drawing on Currency gold in London This would, we consider, be contrary to the purposes for which the gold is maintained, and therefore open to strong objection, especially as it would weaken our capacity to remit to you for Treasury purposes in the event of exchange continuing weak Our advice therefore is that we may be authorised to refuse the application

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Telegram from SECRETARY OF STATE to VICEROY, dated 20th November 1907

Telegraphic transfers Your telegram of the 20th instant You have my authority to inform exchange banks that you are unable to accede to their application

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Telegram from SECRETARY OF STATE to VICEROY, dated 21st November 1907

Please inform me if it is the case, as reported here, that you have informed the Exchange Banks that you will not give gold for export, while you continue to give it for internal purposes In my opinion it might be well to ascertain from the banks how much gold they desire to take, and if the amount is not excessive, to let them have it As a result, the rupee currency would be contracted by the withdrawal of gold, and the renewal of a demand for Council Bills would thereby be hastened The amount of gold to be withdrawn from currency here would thus be reduced, and Government stock of gold would, as ultimate result, remain unaltered I am aware that gold bought from you at 1s 4*d* the rupee may be remitted to Egypt or London and drawn again at lower rate, and that Banks would make this profit But the amount of gold shipped will probably not be large, and confidence in the exchange position might tend to be restored by what I have suggested I shall be glad if you will send me your reply as early as you can

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Telegram from VICEROY, dated 27th November 1907

Your Financial telegram of 21st instant Gold

(1) Gold for export has not been refused, but the issue of gold in one day to any individual has been restricted by us to 10,000*l* Up to this daily limit, banks in Bombay are taking gold steadily, over 100,000*l* having been drawn last week, and another 100,000*l* yesterday and to-day British Postal Orders for 10,000*l* and other large sums have also been bought by certain banks, and the question whether a limit should not be imposed on the issue of such orders is now under consideration

(2) In accordance with your directions the banks have been asked to state what amount of gold they would take, if we agreed to make it freely available In the opinion of the Calcutta banks the outside limit of banking requirements for whole of India would be 1,000,000*l* They advise that if Government's intention to give this amount were declared, only a relatively small quantity would actually be taken Views similar to those suggested in your telegram are held by the Bombay banks, they decline to furnish any estimate of the requirements, but think any large bullion export is improbable, since the export season is beginning Their argument is that confidence would be restored by the immediate issue of Government gold at 15 rupees, and urge that, for the purpose of steadying exchange, it is the duty of Government to use its reserves freely

(3) Although the banks formerly asked us for telegraphic transfers, they are now agreed that they would prefer local issues of gold The general public, particularly natives, would find the latter course more intelligible, and large internal withdrawals of gold for hoarding would be prevented.

(4) A considerable part of our gold balance in India, which is now under 3,500,000*l*, is scattered in Currency offices up country and for internal needs we must maintain a substantial margin Up to 1,000,000*l*, however, we could arrange to issue freely, but in giving more we should find great difficulty We feel very strongly, while prepared to meet your wishes to this extent, that the position will be serious if further demands are made, and we are forced to discontinue issues The only resort would then be the issue of transfers on you, and how far that method could be continued to meet trade demands depends upon your own requirements and the prospect that Council drawings will be resumed at an early date

(5) Improvement in exchange to-day has resulted from your release of currency gold yesterday

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Telegram from SECRETARY OF STATE to VICEROY, dated 28th November 1907

Your Financial telegram of 27th instant After discussing the situation with the Exchange Banks I offer the following suggestion for your consideration, viz, that, in addition to the relief that you are giving by issues of gold, you should also, in order to give confidence and steady exchange, at once issue a notice inviting tenders for telegraphic transfers of 250,000*l* on London, at early date, at rates not exceeding 1*s* $3\frac{27}{32}$*d* the rupee 10,000*l* should be minimum amount of each tender I shall, if you agree, meet any transfers that may be sold by withdrawing gold from Currency You might also intimate that you will from time to time, until further notice, call for similar tenders The demand for gold should tend to be diminished by this measure Kindly let me know by telegraph if these proposals meet with your concurrence

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Telegram from VICEROY, dated 3rd December 1907

Your Finance telegram of the 28th November Sale of transfers on London and issue of gold Steady improvement in exchange is in progress and telegraphic transfers are being sold to day by Calcutta banks at 1*s* $3\frac{7}{8}$*d* A large part of the gold taken for export at Bombay is returning to us Adoption of the course suggested by you, therefore, appears to us to be unnecessary at present, and though it is approved by the banks consulted by us here, it is apparently rather as a precedent than as a necessity in the present situation that it would be welcomed by them With a view, however, to possible future fall in exchange we should be glad to keep proposed notice in reserve, with power (unless you should prefer, if the necessity arises, to offer telegraphic transfers at a fixed rate of 1*s* $3\frac{27}{32}$*d*) to issue it on the first appearance of serious weakness The public would find a fixed rate more intelligible than the invitation of tenders and tenders at a lower rate would not in any case be expected or welcomed by us We should, of course, consult you before drawing on you in excess of whatever limit you may decide to be convenient, but we are inclined to think that it would be better not to specify any particular amount for sale

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Telegram from VICEROY, dated 5th December 1907

Sale of transfers on London Please let us know whether we shall receive orders on our telegram of the 20th November, or whether we may take it that the proposals therein made are accepted If you concur in the proposals, it would, we consider, be well for us to inform the banks privately of our power to notify telegraphic transfers, and of our intention to use that power if exchange shows any signs of serious weakness Since our last telegram there has been a steady improvement in the position, and there is now no need for present action

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Telegram from SECRETARY OF STATE to VICEROY, Finance Department, dated 5th December 1907

Exchange I concur in view expressed in your telegram of 3rd instant that it is not necessary now to offer transfers on London I am of opinion that, if in future there should be a serious drop in exchange, it would be preferable to adopt procedure similar to that proposed in my telegram of 28th November, rather than to offer to sell at fixed price without specifying amount Adoption of latter method might entail inconvenient choice between excessive drain on my resources at very short notice and a sudden suspension of the offer I will reply, as soon as possible, to your telegram of to-day regarding private communication to Banks

Telegram from SECRETARY OF STATE to VICEROY, Finance Department, dated 6th December 1907

Your telegram of yesterday Exchange Banks may be informed that in event of serious weakness in exchange, Government contemplates offering for tender, in India, sterling exchange on London The procedure to be adopted would follow that indicated in my telegram of 28th ultimo Banks should be told that this communication is made because you recognise advantage of letting them know your views and intentions, but that it does not convey a definite pledge, and that Government reserves discretion to act as it thinks best in any future case on consideration of all circumstances then existing

Telegram from VICEROY, dated 7th December 1907

Exchange Your telegram of the 5th December There has again been a slight fall, and we shall offer telegraphic transfers, to a maximum limit of quarter of a million pounds sterling, if the rate falls below 1s $3\frac{27}{32}d$ Details of all transfers granted will be telegraphed to you by the Comptroller-General As regards the method of allotting the transfers, we request reconsideration of your decision There appears to be no advantage in asking for tenders If, as would be probably be the case, all the tenders were at the highest rate, it would be useless, and if lower rates were offered by the tenderers in competition with each other it would be mischievous Our aim is to encourage the tenderers to offer the highest rate which we are willing to accept, and this end could be best obtained, and confidence inspired, by offering the transfers at a fixed rate of 1s $3\frac{27}{32}d$ The transfers would be allotted in order of application

Telegram from SECRETARY OF STATE to VICEROY, Finance Department, dated 9th December 1907

Telegraphic transfers on London I approve of your proposals in your telegram of the 7th December Subject to the minimum of 10,000*l*, transfers should be in multiples of 1,000*l* In order that I may arrange to meet transfers, I shall be glad to know, as soon as possible, when offer will be made

Telegram from VICEROY, dated 13th December 1907

Please refer to your telegram of the 9th December We are unable at present to say when an offer of telegraphic transfers on London will be made, as the rate of exchange remains steady at 1s $3\frac{27}{32}d$, and, until it drops below that figure, no action is proposed When it is actually necessary to make the offer you will be at once informed We shall, when making the offer, announce that the transfers will be available in Bombay, Calcutta, and Madras, and advices of their grant may therefore be expected not only from the Comptroller-General, but also from the Accountants-General at Madras and Bombay

Telegram to VICEROY, dated 25th February 1908

Rate of Exchange Your telegram of 13th December Having consulted with Exchange Banks, I have come to the conclusion that it will be better for you to sell bills on London at 1s $3\frac{29}{32}d$, if the rate of exchange falls again, rather than telegraphic transfers The Exchange Banks state that bills will do equally well for them The amount to be sold will necessarily depend on circumstances, and cannot be decided in advance, a bill must not be sold for a smaller amount than 10,000*l* Please communicate the above information to the Exchange Banks The lowest rate which can be fixed for the bills is 1s $3\frac{29}{32}d$ as, if it were lower, Banks would prefer shipping sovereigns If at any time you are satisfied that a sale would be useful for strengthening exchange, you may sell 250,000*l* worth of bills without previously consulting me Of course, when you sell them you will telegraph to me When you have informed the Exchange Banks in India as above, please let me know by telegraph, in order that the Head Offices in London may be informed

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Telegram from VICEROY, dated 3rd March 1908

Your telegram 25th February and previous correspondence Exchange remains low in spite of this being the normally busy season, and the telegraphic rates cannot rise over $15\frac{29}{32}d$ Also it seems highly possible that after March, when exports diminish, there will be weakness Meanwhile, it seems from your curtailment of Council Drawings that you may shortly have to transfer a considerable quantity of gold from Currency to your Treasury Thus, if there is a falling Exchange in the slack season, we may have to draw bills on you which you will only be able to meet by withdrawals of gold from the Gold Standard Reserve Accordingly we suggest that you should consider the expediency of refraining from further investments on account of the Gold Standard Reserve and of not renewing Treasury Bills, &c, as they mature, in order to increase the stock of liquid gold in the Reserve Despatch follows shortly

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Telegram from VICEROY, dated 4th March 1908

Your telegram of 25th February Rate of Exchange The Exchange Banks have been informed that instead of arrangement previously communicated we shall be prepared, if the demand rate falls below $15\frac{29}{32}d$, to sell sterling bills at $15\frac{29}{32}d$, up to a maximum of 250,000*l* at a time No bill of smaller denomination than 10,000*l* to be sold, and precise amount offered to be fixed according to circumstances We should be glad to receive your instructions on the following difficulty in procedure which the above arrangement involves We propose, when the necessity occurs, to advertise bills for allotment at noon on the following Thursday, as the English mail leaves Calcutta Thursday evening If tenders are much greater than the maximum limit up to which we are authorised to sell, the wholesale rejection of tenders might depress exchange for the week following, unless special bills can be sold to supplement the regular sale These would be available (for issue at Bombay only) up to Friday afternoon Accordingly we should be glad to be granted authority, in the case for a rush for bills to sell additional bills up to a further 250,000*l* as a maximum in any one week, between Thursday noon and Friday 4 p m There would not be time to get your previous consent for each sale, but we should of course at once telegraph to you the amount of such bills sold

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Telegram from SECRETARY OF STATE to VICEROY, dated 4th March 1908

Exchange Points mentioned in your telegram of yesterday have not escaped my notice With reference to your telegram of to-day, there does not seem to me to be any object in selling 500,000*l* by two instalments in the week, but I authorise you to advertise the sale of that amount without consulting me on any Thursday for the present

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Telegram from Comptroller-General, dated 26th March 1908

My telegram of to-day Tenders received, bills on Secretary of State for India 70,000*l* only from the National Bank of India Tenders accepted in full

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Telegram from Secretary of State to Viceroy, Financial Department, dated 2nd April 1908

In order to be in a better position to meet the bills which you draw upon London, I have sold Consols, and now hold in my balances about 1,100,000*l* belonging to the Gold Reserve Fund, including the 318,000*l* which you mention in your telegram of 23rd March This sum will, like the rest of my balances be lent on security on short temporary loans, and the Gold Standard Reserve will be credited with the interest received thereon In the accounts of the Fund, the amount thus temporarily lent should be described as temporarily forming part of my balances.

Telegram from Viceroy, dated 11th September 1908

No sterling bills have been sold for four weeks, and exchange being steady above 1*s* 3$\frac{15}{16}$*d* per rupee, and Council bills being freely sold, we are announcing to-day discontinuance of offer of bills

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Letter from the Government of India to the Secretary of State No 89, dated 1st April 1909

My Lord,

We have the honour to address you regarding certain aspects of the present position of currency and exchange So long as prospects were uncertain and exchange persistently low, we refrained from raising questions which might be regarded, in the circumstances, as mainly of academic interest Now, however, that the outlook is more reassuring, we think it advisable to sum up the lessons of the recent operations in support of exchange

2 In 1908, the Gold Standard Reserve was, for the first time, employed in fulfilment of the object for which it was established Owing to the entire reversal of the balance of trade, exchange fell below "specie point" in March 1908, and we prevented a further drop, which would otherwise have been inevitable, by selling Bills on London until the return of more normal conditions restored the market rate to 1/3$\frac{31}{32}$ in August In the process, Government remitted to London 8,058,000*l* for the public, and withdrew 121 millions of rupees from circulation in India Intervention on this scale with the natural course of international exchange was clearly an event of the highest importance in our currency history It has committed us in the eyes of the public, to a line of action which though essential to the success of our policy, has not been always clearly foreseen The accumulation of a gold reserve in England has frequently been spoken of as if its only purpose were to enable the Secretary of State on occasion to meet his Home charges without being compelled to draw upon India for funds in an unfavourable market But the further development which places our gold reserve at the disposal of the private remitter is a definite pledge of our active support of the Gold Standard Any failure to fulfil that pledge, either through the exhaustion of the reserve or for other cause, would shake public confidence in our currency policy to a degree which it would be difficult to estimate

3 The test of our capacity to maintain our policy is unquestionably the strength of the Gold Standard Reserve The gold which Your Lordship holds in your currency chest, and which has sometimes been described as our first line of defence, as well as the gold which we hold in India whether in our

treasuries or in the currency reserve, disappear into relative unimportance when the balance of trade sets against us for any prolonged period Our stock of gold in India ceases to be replenished through the ordinary channels, and melts away The currency gold in London has to be taken by you for our Home charges, when exchange prohibits you from financing them by Council drawings We have thus to fall back upon the Gold Standard Reserve at a comparatively early stage of a bad cycle It is the recognized fulcrum of our whole currency system, and its strength is of vital importance both to Government and to the merchants, capitalists and investors who are associated with us in the development of India

4 In the light of last year's experience, it seems to us impossible to maintain that our Gold Standard Reserve has ever yet approached the position which it ought to occupy The ideal strength of the Reserve has been the subject of much discussion, and figures have been quoted, ranging from 10,000,000*l* to an amount which would enable the Secretary of State to curtail his drawings by one-half during a period of three successive years But we may now dispense with *à priori* calculations During the period from November 1907, when exchange first fell substantially below 1*s* 4*d*, until the end of January last, we lost 15 millions of our gold, thus

	November 1907	February 1909
Gold Standard Reserve - - -	14 2	7 9
Currency gold in England - - -	6 2	1 5
Government gold held in India - -	4 2	1
	24 6	9 5

This is the result of a little more than a single year of adverse conditions and of a famine which was more restricted in its area than is frequently the case with similar calamities There is unhappily no assurance that our next period of adversity may not be more prolonged, and it would be no excess of caution if we were armed against two consecutive years such as the one through which we have just passed We have no wish to speak dogmatically, but we are strongly disposed to regard 25 millions as the minimum of safety in the Gold Standard Reserve, apart from the gold which we may be able to hold in our currency reserve and our treasuries

5 This brings us to the first definite proposal which we wish to submit for your Lordship's consideration In July 1907 you decided that 1,000,000*l* out of our profits on coinage might safely be diverted from the Reserve to be utilised on railway capital expenditure We deprecated the decision at the time, but accepted it and have defended it against an outburst of public criticism in India You subsequently determined that half the profits on the coinage of rupees should be consistently diverted in the same manner, and this course has accordingly been followed so long as any profits accrued We would now ask you, however, to reconsider your decision, and to allow the future profits on coinage to pass into the Gold Standard Reserve without deduction, until the Reserve stands at a much higher figure than it has yet attained We do not yield to your Lordship in our desire to press forward railway development in India but we are convinced that the stability of our currency is a far more vital factor in the welfare of the country than the pace at which our railway facilities are extended It is highly significant that this view is so widely shared by the mercantile community, in spite of the strong personal interest which attaches large sections of them to an active railway policy We have already forwarded to you the expression of opinion by the Bombay Chamber of Commerce on the subject *, and we now submit, for your information, copies of similar protests which we received from the Chambers at Calcutta, Madras, and Karachi The position has again been dealt with, in a similar strain and with much conviction, by the Chairman of the Bombay Chamber, whose remarks on the subject at the

* Enclosure to Government of India's Despatch No 296 dated the 8th August 1907 page 160

Chamber's annual meeting on the 3rd instant have met with the general approval of the business public in India We find ourselves in entire accord with these views, and we would earnestly press upon your Lordship the impolicy of retarding the growth of the Reserve when circumstances again permit us to renew the coinage of rupees

6 Another aspect of the Gold Standard Reserve which attracts much criticism in India is the form in which it is held When the Reserve was first established, it was the desire of Lord Curzon's Government that it should be kept in liquid gold in India Your predecessor decided to the contrary, and it was invested in gold securities, which have lost appreciably in value We are not prepared to revive the proposal that the gold should be held in India, though it is our duty to refer to the very strong feeling in favour of such a course which prevails in this country The feeling is partly sentimental, there is an idea that the gold belongs to India and should be held there But there is also a belief that its presence in India would be a tangible sign of our Gold Standard, and that its issue in India, when necessary, would be equally effective with the present arrangements to stem a fall in exchange, besides tending to increase the popularity of a gold currency We do not lay stress on these arguments at present When exchange is weak, it seems hardly material whether we strengthen it by issuing gold in England or in India The former is probably the more convenient, and the ideal would be to employ both remedies simultaneously, if we were in a position to do so

7 But, while we do not press for any change in the location of the Gold Standard Reserve, we attach very great importance to our second proposal, that a substantial part of the Reserve should be held in a liquid form This seems to us to be necessitated both by expediency and on broader grounds of policy We do not lay stress on the loss that has occurred in selling the Reserve securities during 1908, those losses have been more than covered by the accrued interest What we fear is a combination of events which would demand the employment of the Reserve at a time when large sales of British Government securities in London would be contrary to Imperial interests Such a combination is by no means inconceivable, and even in less serious situations the free employment of the Reserve might be gravely hampered by the form in which it is now held The point is one on which informed public opinion in India is singularly unanimous We are frequently asked why we strain after interest on the Reserve which is the basis of our currency system, and consequently one of the chief pillars of the credit of India, and it is pointed out that other countries are careful to retain the ultimate foundation of their credit in bullion We think these views deserve every consideration, and we are satisfied that it would have an excellent effect if Your Lordship decides to refrain from further investment of the Reserve gold That such a course is right on general grounds we consider to be beyond question Our strength in combating a low exchange depends, broadly speaking, on our ability to reduce the supply of rupees and to augment the supply of gold If we can do both simultaneously, our intervention is the sooner effective At present, we can only reduce the supply of rupees, for our gold has already been put on the market, and all that is meant by realising it is the transfer of certain securities from Government to another holder Moreover, we conceive that the position of the Government of India in the markets of the world would be much stronger as the possessor of a large store of liquid gold than as the possessor of a corresponding capital in Consols or similar securities In the former case, the Indian Government might in emergency be powerful to help the market in the latter there would always be the potential danger of their wishing to realise at an inconvenient season We would therefore urge on Your Lordship the propriety of building up a substantial share of the Reserve in liquid gold, to be held under as nearly as possible the same conditions as the currency gold in London

8 We have intentionally avoided any general review of our currency policy Our object for the moment is to place before you the views which are held in India regarding the Gold Standard Reserve, and the convictions

that have been forced upon us by the experience of the last year The two modifications in procedure which we recommend are in entire harmony with the declared policy of supporting the Gold Standard, and they will go far to secure public confidence in our intentions

We have, &c ,

(Signed) MINTO
KITCHENER
C H SCOTT
H E RICHARDS
H ADAMSON
J O MILLER
W L HARVEY
G F WILSON

Enclosure No 1

Dated 16th August 1907

From The Honourable Mr V G LYNN, Chairman, Chamber of Commerce, Madras, to the Secretary to the Government of India, Finance Department

I have the honour to address you with reference to the Secretary of State's reply in the House of Commons, on the 9th July 1907, to Sir Edward Sassoon's question regarding the Gold Standard Reserve Fund and the policy of adding to it the whole profit on coinage

When it became known that profits on coinage were to be diverted to a Silver Branch of the Reserve Fund the mercantile community, through its representative Chambers of Commerce, expressed dissent, and in reply was informed that the Silver Branch was expected to reach the limit of R6 crores required by March of this year, and that thereafter the profit on coinage would be credited to the reserve in gold as before, and in the discussion of the Financial Statement for 1906-07, in reply to the Honourable Mr Finlay's suggestion that the time might shortly come when the profits on coinage could be utilised for the development of railways, the Finance Minister stated that assistance would not become available from this source until the invested portion of the Reserve Fund is considerably larger than it is now

This Chamber therefore cannot but view with very grave apprehension the decision that has now been arrived at, to appropriate half the profit on coinage towards railway development The Honourable Mr Finlay admitted that the question was one which must be decided without reference to the need of the railways, but with reference solely to the sufficiency of the Gold Standard Reserve Fund for the purpose for which it is formed, and the Chamber submits that there has been no change in the position to justify the alteration of policy, and that as stability of exchange is mainly dependent on public confidence in the ability of Government to combat adverse influences, a vacillating policy such as at present obtains is fraught with very grave dangers

In recent years the Gold Standard Reserve Fund has accumulated very rapidly, the coinage of rupees having been abnormally high in consonance with the export trade, but the Chamber submits that this prosperity cannot be expected to continue indefinitely without interruption Reactions may be expected from time to time, to meet which it is essential that the Gold Standard Reserve be in liquid form, large enough to meet any calls upon it without danger of depletion In the opinion of the Chamber, the reserve required is not yet in sight, and the Chamber respectfully begs to urge the necessity of allocating to the Fund the whole of the profit on coinage as it accrues, there being no guarantee as to how long this profit will be available

It seems to the Chamber unlikely that the active circulation in this country will be able to absorb an average of fifteen crores of new rupees annually, and in the absence of a large demand for coined rupees from foreign countries, coining must again be suspended or the country will suffer from an inflated currency That a large foreign demand exists is known, and this, the Chamber submits, creates an element of danger which should not be lost sight of Although the day when countries now using Indian

rupees will establish their own coinage and send back to India all the rupees circulating in their respective territory may be remote, it is nevertheless a contingency which has to be provided for, and the more remote the day, the greater will be the liability Before this happens, conditions unfavourable to exchange may temporarily arise, and should Government find it necessary to indent on the Gold Standard Reserve Fund, the position would be closely watched in countries using Indian rupees, and in the event of the Fund showing signs of depletion they would quickly be returned from abroad, and so aggravate the situation In addition to the coined rupees held by foreign countries there is the Rupee Paper held in London, amounting to R16 crores, which not improbably might also be returned, to the further aggravation of the position

When the London Money Market is strained, as at present, it might be found well nigh impossible to realise any appreciable amount of the invested portion of the Fund, and in the event of unfavourable conditions arising, the actual gold in the Reserve Fund being infinitesimal, the only gold available for the Government of India to fall back upon is that in the Currency Reserve, which does not amount to much more than six months' Home Charges, a sum which this Chamber considers quite inadequate to ensure the stability of exchange For this reason the Chamber would advocate that future additions to the Fund be maintained in gold coin or bullion

Another factor that appears to the Chamber worthy of consideration is the growing demand for gold as a medium of circulation As this demand increases, in equal proportion will the demand for rupees and profit on coinage decrease

In conclusion, the Chamber desires to say that in its opinion the Gold Standard Reserve Fund is still inadequate for the purpose for which it is formed, and, for the reasons set forth above, it respectfully deprecates any further deflections from it of the profit on coinage

Enclosure No 2

No 1457, dated 6th September 1907

From the Secretary, Bengal Chamber of Commerce, to the Secretary to the Government of India, Finance Department

I am directed by the Committee of the Bengal Chamber of Commerce to address you with reference to the recent decision of the Secretary of State for India to divert a moiety of the profits on coinage to Railway Capital expenditure

2 The Committee have not so far offered any opinion upon this decision Their position in regard to it is, that for a number of years they have strongly and consistently advocated the need for increased Capital expenditure on railway equipment * They did not hesitate to express publicly their dissatisfaction when it was announced that the railway grant for the current year was to be reduced, and they urged that steps should be promptly taken to raise the grant to the limit originally fixed The Secretary of State has evidently also come to this conclusion, although he has not been able to adopt the means proposed by the Committee The method which he has followed has called forth much adverse criticism, and the Committee are not, they regret to say, themselves able to give it their unqualified support, greatly as they appreciate the object in view For the maintenance of the gold value of the rupee is a matter of even greater consequence than the improvement of the Indian railway system It rests upon the confidence of the public in the Currency policy of the Government of India and clearly, therefore, that policy must be such as is calculated to inspire and to promote confidence rather than to give rise to doubt or hesitation The present is admittedly a period of remarkable trade development in India, and the Committee acknowledge that, so long as existing conditions continue, no adverse effect of the decision can be apparent But it is only one of several

* Letter No 826/07, dated 11th May 1907 from the Chamber, to the Government of India, Department of Commerce and Industry (not printed)

changes which have been made recently, and which are leading the public to believe that the Currency policy of the Government is by no means of so clear and definite a character as was at one time anticipated

3 To illustrate what they mean, the Committee would refer, in the first place, to the various figures which have been named from time to time as the limit for the Gold Standard Reserve In the course of the Budget Debate on the 30th March 1904, Lord Curzon said that 10,000,000*l* would give "a permanent guarantee for stability of exchange" Twelve months later, the Honourable the Finance Minister said he would like to see the Reserve raised to "something between 20 and 30 millions sterling"* In the following year Mr Baker appeared to have come to the conclusion that "there can be no limit to the Gold Reserve Fund" "So long" he said, "as India has a Gold Standard combined with a Currency which consists "mainly of rupees I consider that we are bound to set apart the whole of "the profits on additions to the coinage"† And after stating his reasons for this important expression of opinion, he added 'We must, therefore, "resist all temptation to use these profits for ordinary current expenditure"‡ Mr Baker again referred to the subject in the last Budget Debate, and you now quote his speech on that occasion in support of the decision to supplement the ordinary revenue of the country by a diversion of part of the coinage profits The Committee wish it to be understood that they cite these passages simply in order to show that, so far as the public can judge, the opinion of the Government of India in regard to the limit of the Gold Standard Reserve is indefinite, it seems to be changing from year to year It may be, of course, that these changes are more apparent than real, but the public can only arrive at conclusions upon the information which is placed at its disposal Then again, last year what the Government defined as a "Silver Branch" of the Gold Standard Reserve, was formed But no previous intimation was given that any such step was contemplated, and the subsequent protests of the commercial community were disregarded, although they were supported by Sir Edward Law, the late Finance Minister Furthermore, what was described as "a temporary loan" was taken in December 1906 from this Silver Branch of the Reserve "in order to assist "the Government in meeting the very heavy issues of Telegraphic Transfers "by the Secretary of State"§ But the Indian Chambers of Commerce were not asked how they would view such a diversion of the Fund, and, in fact, nothing was known of the matter until the receipt of your letter from which I have just quoted

4 At the moment, the Committee are not so much concerned with the merits of either of these two new departures The point is that, taken in conjunction with the further most important change which has just been made, and with the unsettled state of opinion as to the limit of the reserve, they will have, or may have, the ultimate effect of seriously disturbing public confidence No doubt it will be argued that in an undertaking of such magnitude an absolutely rigid and inflexible policy is an impossibility, that experience of the working of the delicate machinery by which the stability of exchange is secured is certain to suggest changes from time to time, and that such prompt action is sometimes necessary as to prevent consultation with the representatives of mercantile interests The Committee do not deny that there may be force in this contention But they are convinced that sudden changes must ultimately have an unsettling influence, and that no effort should be therefore spared to reduce them to an absolute minimum The Committee do not pretend to be able to suggest a course of action by which the Government could have avoided what has been done It is, however, their considered opinion that a more definite policy is imperative if confidence is to be permanently maintained, and they believe that the leading features of such a policy cannot be defined without a further

* Budget Debate, 29th March 1905 (H C 167 of 1905, page 206)
† Budget Debate, 28th March 1906 (H C 162 of 1906, page 212)
‡ Letter dated 19th August 1907, from the Government of India, Finance Department, to the Bombay Chamber of Commerce (not printed)
§ Letter No 561 A, dated 26th January 1907, from the Government of India Finance Department, to the Bengal Chamber of Commerce (not printed)

exhaustive inquiry In fact, they are persuaded that the time has come when the Indian Currency question ought to be once more thoroughly examined by a commission of experts

5 It will be 10 years in April next since the appointment of the last Currency Commission The success of the policy which was based upon its recommendations has been perhaps greater, and certainly more immediate than was anticipated The trade and commerce of the country have increased at an unexampled pace, and the resulting expansion of the Silver Currency has raised the Gold Reserve to a strong position within a comparatively brief period But prosperity has brought with it new problems for solution, and one of the greatest of these is the limit at which the Reserve ought to be fixed That there is a diversity of opinion upon this vital point, need not be further insisted upon, and a ruling from an expert Commission, as to what would be a safe limit for the next 10 years, could not fail to inspire confidence An almost equally important question is as regards the form in which the Reserve should be held To maintain a sum approximately to 20 millions sterling, or perhaps more, in gold coin or bullion, might not, the Committee fear, commend itself to commercial men as a business proposition But at the same time, there is a very strong feeling that the actual gold in the Reserve is insufficient, and it cannot be overlooked that the Fowler Commission recommended that the Reserve "should be kept in gold" A new Commission would examine this question attentively, and their opinion would be generally accepted as authoritative The present position of what are known as gilt-edged securities opens up a further question for the consideration of the Commission For, if investment is to be continued, the public will desire to have some assurance that a wise discrimination will be exercised in the choice of stock There does not seem to be a general agreement that all the investments which have hitherto been made are in every respect the best possible

6 The foregoing appear to the Committee of the Chamber to be some of the principal points which a Commission would investigate But in connection with so complex and difficult a problem there are, of course, many other matters which would likewise come under review When all of these had been considered, the Commission would be almost certainly in a position to define and to limit the policy of the Government for a further period of, say, 10 years It may be reasonably expected that such a definition and limitation would have a marked beneficial effect For it would obviate to the greatest extent possible the occurrence of such changes as those which have given rise to the present discussion, and it would dispel the idea, which now seems to be abroad, that a hesitating and vacillating policy is being pursued A Commission would also afford an opportunity to all interested in the Currency question of placing their views on record, and the experience which has been gained during the past 10 years would be thus made available for the guidance of those who will be responsible in the future for the direction and management of Indian Currency affairs

Enclosure No 3

No 507, dated 1st October 1907

From A Tholf, Esq, Vice-Chairman, Karachi Chamber of Commerce, to The Secretary to the Government of India, Finance Department

The Committee of this Chamber have been favoured by the Bengal Chamber of Commerce with a copy of their letter to you, No 1457—1907, dated 6th September, on the subject of the decision of the Secretary of State for India to divert a moiety on the profits on coinage to Railway Capital Expenditure

While on the one hand my Committee acknowledge that the need for augmenting the carrying capacity of the principal Indian Railways is very urgent, and that under the present conditions of remarkable trade development

in India no immediate adverse effect of the decision can be apparent, on the other hand they entirely concur with the views expressed by the Bengal Chamber that the decision is one which may affect the confidence in the Currency policy of the Government of India, upon which the success of that policy greatly depends

I am therefore desired by my Committee to express to you that they strongly support the views expressed by the Bengal Chamber in their letter above quoted, more especially with regard to the advisability of a new Currency Commission examining the whole question and making proposals for defining the policy to be followed in the management of Indian Currency affairs

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Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No 82, dated 2nd July 1909

MY LORD,

IN your Letter No 87, dated 1st April 1909, you discuss the administration of the Gold Standard Reserve, and suggest certain changes The subject is one of great importance, and I therefore welcome the opportunity of considering it, in the light of recent events, in consultation with your Excellency's Government

2 The proposals to which you invite my assent are as follows —

(1) That the decision communicated to you in my telegram of 2nd July 1907, to use for capital expenditure on railways half the future profits on coinage shall be held in abeyance, and that the whole of the profits shall be paid to the Gold Standard Reserve until that Reserve stands at a much higher figure than it has yet attained

(2) That a substantial part of the Reserve shall be held in gold

3 The first of these proposals is based on the view that the amount at which the Reserve now stands is below the "minimum of safety," *i e*, is less than the amount which it is prudent to hold in the Reserve as a fund from which, until its exhaustion, the Secretary of State in Council may supply his own requirements (and, if necessary, meet bills of exchange sold in India) during the prevalence of conditions adverse to the maintenance of the rate of exchange at or about 1*s* 4*d* the rupee

The question of the amount which the Reserve should be allowed to reach before any part of the profits of coinage is used for other objects has been discussed during the past five years by Lord Curzon, the late Sir Edward Law, Sir E N Baker, and the Committee on Railway Administration and Finance There has been, as is natural, a striking divergence of views as to the amount that can be reasonably regarded as affording sufficient safeguards for the maintenance of exchange In 1904 Lord Curzon observed "Before "many years have passed I anticipate that this Reserve will have reached "the figure of 10 millions sterling, which will be sufficient for our purpose, "and will give us a permanent guarantee for stability of exchange" In 1905 the late Sir Edward Law expressed the opinion that a reserve of 20 millions would be an ample provision for the most unfavourable circumstances for which it would be reasonable to provide Sir E N Baker, in 1905, said "I should like to see (the Gold Standard Reserve) raised "to something between 20 and 30 millions sterling" The Committee on Railway Finance and Administration estimated, in June 1907, that at the end of the year then current the sterling portion of the Gold Standard Reserve would amount to about 14,500,000*l*, and, as the stock of gold held by the Government outside the Reserve exceeded 11,000,000*l*,

bringing the total sterling resources available for the support of exchange to about 25,500,000*l*, they considered that it would not be imprudent to use for capital expenditure on railways 1,000,000*l* of the profits expected from coinage in 1907–08

It is not surprising that these estimates show a very wide range of variation, since even the last of them was made before conditions involving a strain on the Reserve had arisen or their imminence could be foreseen Such conditions prevailed with great severity during a considerable portion of the financial years 1907–08 and 1908–09, and you suggest that the experience then gained enables *a priori* calculations such as those mentioned above to be put aside You quote certain figures which show that during the period from November 1907 to February 1909 the sterling assets of all kinds available for use by the Government for strengthening exchange were reduced by 15,100,000*l*, and you comment on these figures as follows —

> "This (reduction) is the result of little more than a single year of adverse conditions, and of a famine which was more restricted in its area than is frequently the case with similar calamities There is unhappily no assurance that our next period of adversity may not be more prolonged, and it would be no excess of caution if we were armed against two consecutive years such as the one through which we have just passed We have no wish to speak dogmatically, but we are strongly disposed to regard 25 millions as the minimum of safety in the Gold Standard Reserve, apart from the gold which we may be able to hold in our currency reserve and in our treasuries"

4 I am inclined to think that the remarks quoted at the end of the preceding paragraph overstate what is required in order to provide suitable safeguards against a fall in exchange My reasons are as follows —

(A) It is true that the famine of 1907 was restricted both in area and duration, but it is also true that it occurred at a time when general conditions were exceptionally adverse to the maintenance of exchange The effect of the famine in reducing India's power of exporting certain articles was felt at a time when the foreign demand for the articles that India was able to export was seriously restricted by commercial depression throughout a large part of the world, intensified, if not largely brought about, by the financial crisis in the United States of America At the same time the Imports into India of merchandise and silver were on a very extensive scale, the large imports of merchandise being perhaps a consequence of the favourable trade conditions that India had enjoyed for several years previously, while the purchases of silver were without doubt encouraged by the low price The result of these various causes was that during the period from 1st November 1907 to 31st October 1908 the foreign trade of India on Private Account showed a balance of net imports of 1,190,000*l*, whereas, as will be seen from the enclosed statement, there was in each year from 1896 to 1907 (which period included two severe famines) a substantial balance of net exports in the corresponding months

(B) The gold in the Paper Currency Department cannot, in my opinion, be left out of account in any calculation of the amount of sterling resources which should be held as a safeguard for exchange The reasons which have commended to you the opposite conclusion are summarised in the following passage in paragraph 3 of your letter —"The gold which your Lordship holds in your currency "chest, and which has sometimes been described as our first line "of defence, as well as the gold which we hold in India whether "in our treasuries or in the currency reserve, disappear into "relative unimportance when the balance of trade sets against "us for any prolonged period Our stock of gold in India

"ceases to be replenished through the ordinary channels and "melts away The currency gold in London has to be taken "by you for our home charges, when exchange prohibits you "from financing them by Council drawings We have thus to "fall back on the Gold Standard Reserve at a comparatively "early stage of a bad cycle It is the recognised fulcrum for our "whole currency system" It appears to me that in these sentences the importance of the following considerations is not fully recognised —

(1) According to the figures given in paragraph 4 of your Letter (which, however, do not show the full reduction in the sterling resources of the Government at the time of their greatest depression) the measures taken in 1907 and 1908 for the maintenance of exchange involved a reduction of 15,100,000*l* in the sterling resources held by the Government for this purpose, of which only 6,300,000*l* was provided from the Gold Standard Reserve, the remaining 8,800,000*l* having been taken from the *gold held in England and India (1,700,000l from the Currency* Reserve in England and 1,100,000*l* from the Currency Reserve and Treasuries in India)

(2) The Gold Standard Reserve can scarcely be said to have been used at a comparatively early stage of the recent depression in exchange It was not touched until 13th April 1908 five and a half months after the fall of exchange below "specie point," during which period 2,500,000*l* was taken in gold from the Paper Currency Reserve in England, and 1,413,000*l* in India The whole of the gold withdrawn in England and (as appears from your telegram of 27th November 1907) at least a considerable portion of that withdrawn in India was used for the support of exchange

(3) In addition to these facts, it would appear to be clear on general grounds that any given sum of sterling money which is (*a*) used instead of the proceeds of Council bills towards meeting Home Charges, or (*b*) used to meet bills drawn by the Government of India on the Secretary of State in Council, or (*c*) issued in India to exporters in exchange for rupees, has exactly the same efficacy for supporting exchange whether it is drawn from the Gold Standard Reserve or from the Paper Currency Department

5 While, for the reasons given above, I am unable to accord entire assent to your views on all the points that you have discussed in connection with your first proposal, I am entirely in agreement with you as to the paramount importance of maintaining such a reserve of sterling resources as may fairly be regarded as sufficient to maintain exchange in times of prolonged difficulty In forming a conclusion as to the amount which should be regarded as sufficient for this purpose, it is necessary to bear in mind that it would be wasteful to accumulate a sum largely in excess of what is required to meet all difficulties against which it is reasonable to provide, since an excessive accumulation involves the locking up of funds which might be used for the industrial development of India As at present advised, I am inclined to think that the prudent and economical course would be to regard 25,000,000*l* as the minimum amount which should be accumulated in the form of sterling assets of the Gold Standard Reserve and gold held in the Paper Currency Department, and I am willing that, so long as the total of the resources just mentioned stands below that figure, the whole of the future profits on coinage shall be added to the Gold Standard Reserve

6 It may apparently be possible to accumulate this amount, or even more, *before the resumption of the coinage of rupees, if it is decided not to* resume coinage until the stock of rupees in the Paper Currency Department falls to 15 crores, and the stock in the silver branch of the Gold Standard

Reserve to 3 crores, amounts which appear to constitute a sufficient minimum. The calculation on which this anticipation is based is as follows —

	£
It is estimated that the Gold Standard Reserve will amount on 31st March 1910 to - - - - -	18,733,000
From this must be deducted the amount to be held in rupees - - - - - - -	2,000,000
Leaving as the amount which can be held in sterling -	16,733,000
The gold held in the Paper Currency Reserve in England is - - - - - - -	1,500,000
The rupees in the Paper Currency Reserve amount to 3,362 lakhs. The substitution of gold for 1,862 lakhs would produce - - - - - - -	12,413,300
Thus, if gold could be substituted for rupees in the Paper Currency Reserve to the full extent contemplated, the sterling resources in that Reserve and in the Gold Standard Reserve would amount to - - -	30,646,300

Some allowance must be made for the possibility that (owing to a diminution of the gross circulation of notes) a reduction of the stock of rupees in the Paper Currency Reserve may take place without a corresponding increase of the stock of gold but any estimate of the amount of such reduction would be of a very conjectural nature.

7. The considerations set forth above lead me to the conclusion that it is not necessary in the interests of exchange to modify, except to the extent mentioned in the last sentence of paragraph 5 above, the decision announced in 1907 to use half the profits on coinage for capital expenditure on railways. That decision was arrived at in view of the urgent necessity for supplying additional resources for railway development—a matter which has been pressed upon the Secretary of State in Council on many occasions by the Government of India—and on the difficulty and the danger to Indian credit involved in any increase of the present rate of borrowing. To retard the improvement and extension of the railway system in order to accumulate, beyond the limit which prudence requires, funds for the support of exchange would involve many disadvantages. At the same time I recognise that before the coinage of rupees is resumed—which may perhaps not occur for some years—new conditions may arise requiring special consideration. Your estimate of the capital expenditure which should be incurred on railways may be modified, loans may be obtained more easily, new experience may have been obtained of the fluctuations to which Indian trade and exchange are liable. I have no desire to forecast now the result of any discussion which may be carried on, in the light of such new conditions, at some uncertain time hereafter between the Secretary of State in Council and the Government of India as then constituted.

8. Your second proposal is that a substantial portion of the Reserve shall be held in gold.

9. The object of this proposal is to ensure that the Reserve shall be readily available whenever required, even though the necessity should arise at a time of general financial difficulty in London. There can, of course, be no possible doubt as to the importance of this object, but I am not satisfied that the adoption of your proposal, in substitution for the present method of dealing with the Reserve, is required for its attainment. As a matter of fact, I have carefully and constantly kept the same object in view whenever I

have had to decide as to the disposal of profits on coinage or of sums accruing to the Reserve by way of interest The plan which I have followed has been as follows —

(1) To hold a considerable portion of the Reserve in the form of high class securities with a near date of redemption, because cash can always be obtained at the shortest notice, by sale or loan, for such securities in the event of their realisation before maturity becoming necessary

(2) To hold in addition such an amount of stocks yielding a higher rate of interest (*e g* Consols) as I can count on being able to sell in time to meet all requirements that should be met from the Reserve

I have, of course, borne in mind that the realisation of the securities mentioned in (2) can be effected somewhat gradually, while the proceeds of the securities mentioned in (1) which can be turned into money practically at once, are being used if necessary, for immediate requirements

As my object has been precisely the same as that to which your proposal is directed, the chief practical question that can be raised (apart from those to be dealt with in paragraph 10 below) is whether I have succeeded in attaining it I venture to think that the experience of 1908 shows that the answer to this question is in the affirmative For, although the conditions in London in the year mentioned were very far from favourable to large sales of stock, there was no serious difficulty in providing from the Reserve the 8,058,000*l*, which was required to meet the London bills drawn by your Excellency's Government, and the further sum of 931,000*l*, which was temporarily applied from the same source towards defraying the Home charges, and I had also made arrangements for realising, if necessary, a considerable additional amount In view of these facts I am unable to attach importance to the apprehension that "the free employment of the Reserve " might be seriously hampered by the form in which it is now held" I recognise, of course, that in times of prolonged depression of Indian trade, especially if accompanied by other adverse conditions, the realisation of securities to the amount required to support exchange would require care but the operation ought not to be beyond the capacity of the Secretary of State in Council and his advisers, and I accept the responsibility for carrying it out on occasion arising

In this connection it is not inappropriate to remind you that the weekly sales by you during several months in 1908 of sterling bills on London, which were the chief cause necessitating the realisation of securities, were undertaken at my suggestion (*see* my telegrams of 28th November 1907 and 25th February 1908), and that I did not on any occasion propose a reduction of the weekly amount, though I more than once proposed an increase

10 The consideration dealt with in the preceding paragraph is the most important of those mentioned by you in favour of your proposal, but there are certain others which should be noticed

One is that it was the desire of Lord Curzon's Government that the Reserve "should be held in liquid gold in India," and that Lord George Hamilton overruled their recommendation to this effect, and decided to hold the Reserve in securities I find on referring to the correspondence which took place when the Reserve was established, that Lord George Hamilton understood the Government of India to desire that the Reserve should be held either in gold or in securities saleable for gold, or partly in one form and partly in the other Whether his understanding of their wishes was correct or not, it is clear that it would not now be reasonable to attach more importance to suggestions regarding the management of the Reserve which were made before its establishment than to the results of the experience, extending over more than eight years, which has since been gained

A second argument, to which you refer with approval, is that "other " countries are careful to retain the ultimate foundation of their credit in

'bullion" I understand that these words are meant to convey that Governments which issue notes encashable in gold or silver on demand are in the habit of holding gold or silver in order to provide for the encashment This remark is accurate, except so far as it needs to be qualified by a reference to the large fiduciary issues of most Governments, but it has little, if any, bearing on the question of the most suitable form for the Gold Standard Reserve That Reserve will presumably be used in future, so far as it is used at all, for defraying the Home Charges when Council bills cannot be sold at or above the gold point, or for meeting London bills drawn by the Government of India For either purpose easily realisable securities or bank balances are as useful as gold, and there is therefore no advantage in holding the latter

A third argument used by you is that it is desirable that the Government of India, when combating a low exchange, shall be in a position not only to contract the circulation of rupees in India, which is done under the existing system, but also to expand the circulation of gold elsewhere simultaneously (the object of the expansion of the circulation of gold being presumably to stimulate trade throughout the world and thus to increase the demand for Indian produce), and that the latter operation is not within your power unless the Gold Standard Reserve is held in gold I am not disposed to think that the release of such gold as might be held in the Gold Standard Reserve would have an important or speedy effect in creating a favourable balance of Indian trade, but, if it is to be held that this result would follow, it must equally be held that the previous accumulation of gold in the Gold Standard Reserve would, so long as it was proceeding, have an unfavourable effect on the Indian trade balance, and it would certainly injure India's power of borrowing in the London market

11 In the two preceding paragraphs I have considered the objections urged against the present practice of holding the Reserve in securities I have now to draw your attention to the financial gain which has resulted from this practice The amount received up to date in this country from interest on securities and discount on Treasury Bills, less the loss consequent on the discounting of Treasury Bills before maturity, is 1,778,906*l* The loss incurred through the sale of securities has been 146,852*l* The net depreciation at present prices, as compared with the average cost price, of the securities now held is 260,991*l* Thus in eight years there has been a net gain to the Gold Standard Reserve of 1,371,063*l*

12 My conclusion regarding your second proposal is as follows —In view of the pecuniary disadvantage of holding a part of the Gold Standard Reserve in gold, I do not see my way to adopting this proposal But I am willing to meet your wishes to the extent of leaving 1,000,000*l* of the Reserve uninvested The part so treated will be either lent from time to time for short periods on approved security to approved institutions and firms or deposited at interest with Banks of high standing, the interest earned being credited to the Reserve The remainder of the English portion of the Reserve will be dealt with as explained in paragraph 9 above The transactions necessary to give effect to the decision regarding the 1,000,000*l* that is not to be invested will be carried out gradually and you will be informed of them in due course

I have, &c,

(Signed) MORLEY OF BLACKBURN

Enclosure

Foreign Trade of India (on private account) in each year from 1st November 1896 to 31st October 1908 Figures in millions of pounds sterling

—	1896-97	1897-98	1898-99	1899-1900	1900-01	1901-02
MERCHANDISE —						
Exports - - -	64 58	73 93	73 67	69 56	78 94	83 70
Imports - - - -	43 79	45 74	48 10	46 92	55 13	52 73
Net exports - - -	20 79	28 19	25 27	22 64	23 81	30 97
GOLD —						
Net imports - - -	2 61	3 18	4 61	6 13	3 81	3 42
SILVER —						
Net imports - -	5 19	4 57	2 66	94	2 15	5 25
MERCHANDISE, GOLD AND SILVER — Net exports (+) or imports (—)	+12 96	+20 44	+18 00	+15 57	+17 55	+22 30

—	1902-03	1903-04	1904-05	1905-06	1906-07	1907-08
MERCHANDISE —						
Exports - - -	91 51	104 01	106 47	111 23	129 27	99 53
Imports - - - -	51 05	61 36	66 07	72 19	79 05	87 12
Net exports - - -	40 46	42 65	40 40	39 04	50 22	12 41
GOLD —						
Net imports - - -	9 56	12 92	9 90	7 50	13 15	1 71
SILVER —						
Net imports - - -	3 75	5 14	5 97	3 71	6 06	8 56
MERCHANDISE, GOLD, AND SILVER — Net exports (+) or imports (—)	+27 15	+24 59	+24 53	+27 83	+31 01	—1 19

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No 91, dated 13th August 1909

MY LORD,

My attention has been called to the desirability of arranging for earlier and more frequent publication of information regarding the position of the Gold Standard Reserve Under present arrangements two statements showing the position of the Reserve at the end of each quarter appear in the Gazette of India between two and three months after the end of the quarter I suggest that, in addition, a statement in the same form as the second of those published in the Gazette of India for 19th June 1909 shall in future be issued in England and in India in the second week of each month showing the position of the Reserve at the end of the preceding month I shall be glad to learn by telegram if you agree to this proposal If you do, the first monthly publication might take place in September , and, in order that there may be no discrepancy between the information published in the two countries, I shall telegraph to the Comptroller-General at the beginning of that month a summary of the transactions that have taken place in

England in August It will then be for the Comptroller-General to telegraph to me as soon as possible the following figures relating to the Reserve —

(1) Opening balance 1st August
(2) Particulars of transactions, if any, in India during August
(3) Closing balance 31st August
(4) Form in which Indian portion of Reserve is held on 31st August

At the end of each subsequent month I shall telegraph to the Comptroller-General a summary of the transactions in England during the month, and the Comptroller-General should telegraph to me the particulars of additions made to the Reserve in India during the month and of any change in the form in which the Indian portion of the Reserve is held

2 If the proposal made above is carried out, a copy of each monthly statement issued in England will be posted to the Comptroller-General immediately after publication, and a copy of each one issued in India should be similarly sent to this Office, in order that any accidental discrepancy may be discovered as soon as possible

3 I take the opportunity of pointing out that the sum of 469,818*l*, which forms item 3 of the second statement published in the Gazette of India for 19th June 1909, was not held in gold and should not have been so described Any portion of the Reserve which may in future be left uninvested in accordance with the arrangements made in paragraph 12 of my Despatch of 2nd July 1909, No 82 (Financial), will be described in the statements to be issued in this country as "Cash placed by the Secretary of State for India in Council at short notice"

I have, &c
(Signed) MORLEY OF BLACKBURN

Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No 236, dated 30th September 1909

MY LORD,

WE have the honour to reply to your Despatch No 82, Financial, dated the 2nd July 1909, in which you dealt with our proposals for the future administration of the Gold Standard Reserve

2 In our despatch of the 1st April 1909, No 87, we reviewed the experience of the preceding eighteen months and attempted to sum up the lessons to be learnt from the course of our operations in support of exchange We showed that the main fact which had been brought into prominence by recent events was the inadequacy of our existing gold resources to meet a prolonged crisis As a partial remedy for this state of affairs, and as a precaution against the occurrence of a more serious emergency in the future, we proposed for your Lordship's consideration two specific measures We urged, firstly, that the practice, to which we have always objected, of expending on railways half the profits on coinage should be definitely abandoned, and that all such profits should in future be credited to the Gold Standard Reserve, until that Reserve should stand at a much higher figure than it has yet attained We further pressed the desirability of holding a substantial part of the Reserve in gold In our advocacy of both these measures, we had, as we pointed out in our despatch, the practically unanimous support of the mercantile and banking communities of India

3 In reply to these representations, your Lordship has consented to suspend the diversion of coinage profits to railway construction until such time as the stock of gold in the Gold Standard Reserve and the Paper Currency Department combined shall reach the figure of 25,000,000*l*, thereafter the question will be liable to reconsideration in the light of existing circumstances Though this decision does not go by any means so far as we wished, we welcome it as a step in the direction which we have advocated

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* T r ... er (1) and (2) is required not for publication but to enable the figures to be verified

4 On the second point your Lordship has not seen your way to accept our proposals Holding that, for the purpose of maintaining exchange, securities capable of easy realisation are as efficient as liquid gold, while they are at the same time producing interest to the credit of the Gold Standard Reserve, you have declined to do more than keep a sum of 1,000,000*l* of this Reserve uninvested, such amount being either lent from time to time for short periods, on approved security, to approved institutions and firms, or deposited at interest with banks of high standing We accept this decision with regret While we admit the force of your argument in normal circumstances, and recognise that existing arrangements adequately met the requirements of the late crisis, we would once more emphasise our conviction that it is necessary to provide, and to assure the public that we do provide, against a situation in which the securities of the Gold Standard Reserve would not be easily realisable or realisable only at heavy loss

5 Accepting however, as we must, your decisions, we now desire to discuss the methods to be adopted, under present conditions, in meeting exchange difficulties in the future Your Lordship has recognised the advisability of holding at least 25,000,000*l* in gold and gold securities, and has represented the possibility, under the arrangements indicated in paragraph 6 of your despatch of increasing this amount to as much as 30,000,000*l*, exclusive of the gold securities held by the Paper Currency Department The attainment of this figure involves, however, the reduction of the stock of rupees in the Paper Currency Reserve and the silver branch of the Gold Standard Reserve to fifteen and three crores respectively You consider these amounts to constitute a sufficient minimum, but we must respectfully differ as to their adequacy

6 We could not view without grave concern any diminution of the silver branch of the Gold Standard Reserve Our currency position resembles that of an army exposed to sudden attack on either flank, and we have to provide for a drain upon our silver no less than upon our gold Unlikely as it at present appears that there will be early need for an extensive coinage of rupees, the future developments of commerce are always uncertain, and we should be extremely loth to expose ourselves to any risk of a recurrence of the difficulties which in 1906 rendered the establishment of the silver branch a necessity With the extension of the sovereign as a circulating medium, this risk will no doubt tend to diminish, but though, as we note below, there are promising signs of development in this direction, we can only expect very gradual progress, and a very large growth of such circulation would be necessary before the silver branch of the Gold Standard Reserve can safely be diminished For the present, therefore, we desire to maintain this at the existing figure of six crores

7 For similar reasons we are equally reluctant to substitute gold for the silver in the Paper Currency Reserve to the full extent that you propose We consider that at present we cannot with safety hold less than one-half of our liquid currency balances in rupees, and, as we pointed out in paragraph 8 of our despatch No 144, dated 26th April 1906, we ought to have a minimum of eighteen crores of rupees at the beginning of the busy season As, however, the note circulation has recently expanded, this would, on present figures, give a total gold stock not much less than that assumed by your Lordship, the figures calculated with reference to the position on the 15th September last standing as follows —

	£
Gold Standard Reserve on 15th September 1909 (approximate)	18,635,900
Deduct rupee holding	4,000,000
(*a*) Possible Sterling holding in Gold Standard Reserve	14,635,900
(*b*) Currency Gold in England	1,500,000
(*c*) Further possible Currency gold, *viz*, half of currency balances on 15th September *minus* (*b*)	11,441,200
Total possible gold holding (exclusive of gold securities held by Paper Currency Department)	27,577,100

These figures thus admit of a total Currency holding of about 13,000,000*l* in liquid gold

8 We now desire to impress upon your Lordship our firm conviction that the greater part of this sum should be held in India It is true that in their despatch, No 295, dated the 18th August 1904, Lord Ampthill's Government contemplated as sufficient a gold holding of between about 4,000,000*l* and 6,000,000*l* in India but recent experience has compelled a modification of our views on this point It is unnecessary to repeat here the arguments in favour of the establishment of an effective gold currency in this country They were fully set forth in the report of the Fowler Currency Committee, to which our Gold Standard owes its existence, and their cogency has since that day been fully recognised It is a truism that real stability of exchange can never be assured until gold attains an active and extensive circulation in India the difficulty has hitherto lain in inducing a conservative people to adopt this form of currency Shortly before the recent crisis, however, there were signs of encouraging progress in this direction Though gold was still far from having obtained that popularity which the interests of exchange render desirable there were indications of a greatly extended use of the sovereign in commercial transactions It was estimated, for instance, by our Comptroller General that it might shortly be possible to finance in gold no less than 20 per cent of the up-country cotton trade of Bombay This promising development has naturally received a severe check as a result of recent events To ensure a free use of sovereigns it is essential that we should be in a position to pass gold liberally out of Currency and Treasury in exchange for notes and silver, and in present circumstances this is impossible, for our operations in support of exchange have left us with an absolutely insignificant gold balance We have information that sovereigns now change hands at a premium even in the chief commercial centres of the country, while for ordinary purposes they are practically unobtainable We therefore judge it to be eminently desirable to increase the local gold holding in our Paper Currency Reserve We could face another exchange crisis with far greater equanimity could we be assured both of an active circulation of sovereigns in the country and of a strong reserve in our Currency chest The former would enable the ready export of superfluous currency, while the strength of our own reserve would enable us at once to assist this process and, by free issues of gold, to bring about that restoration of public confidence which is of vital importance in the early stages of a panic

9 For these reasons we wish most emphatically to urge the desirability of holding a large amount of gold in the Currency Reserve *in India* Of the total sum of about 13,000,000*l*, which according to the figures given in paragraph 7, can be held in liquid gold against notes in circulation, we think that at least two-thirds should be available in this country We should indeed prefer to hold more, but we recognise the necessity of leaving with you a liquid balance, to provide for any possible purchases of silver that may be required, and for use in the early stages of a struggle with exchange With the sum of 1,000,000*l* from the Gold Standard Reserve which you intend to keep readily available, you will thus have in London somewhat over 5,000,000*l* in liquid form, and, in view of your opinion on the subject of the realisation of Gold Reserve securities, you will, we trust, consider this sufficient

10 It is obviously desirable, in the light of the circumstances we have quoted, to lose no time in building up the gold resources of this country, and we have now to set forth the steps which should, in our opinion, be taken to effect this object Up to the present, you have been able, by excess sales of Council Bills, to replace by gold rupees in the Gold Standard Reserve to the value of 2,800,000*l*, as well as to draw against Treasury balances nearly 2,000,000*l* more than the proportionate budget allotment of the current year (the figures are up to 31st August) Should the prospects of Indian trade continue favourable, there is reason to hope that it will prove possible, in spite of the present weakness of Exchange which has, lately, once more necessitated our offering Bills on London

to a small extent, but which will, we hope prove to be of a purely temporary character, to draw off before very long the further sum of 3,800,000*l* by which the Gold Standard silver exceeds the necessary minimum When that position has been reached, we are of opinion that you should stay further drawings other than those required for ways and means purposes for if further trade demand for money be genuine, the result must then be that gold will come out to us in India This process should continue until the gold in our Currency Reserve in India has accumulated up to the amount we consider desirable to hold there, viz, two-thirds of one-half the total currency cash holdings, or in present circumstances about 8,600,000*l* When that position has been attained your Lordship would, if trade conditions seemed to require this, issue extra Council Bills against Currency until you too were in possession of your full portion of the gold which we desire to hold in the Currency Reserve The drawing of Council Bills against fresh rupee coinage should not be considered until the full gold requirements of the Currency Reserve both in India and England have been satisfied

11 The course which we propose to adopt in the event of the occurrence of future exchange difficulties of a serious character will thus be sufficiently obvious In addition to the necessary step of selling sterling bills on London, we desire, if we have in the meantime succeeded in acquiring a sufficient store of gold, to issue sovereigns in exchange for silver We shall thus work upon the depressed silver market with double effect The sale of your Council Bills would of course, have to be practically suspended for the time, and you would find such funds as are absolutely necessary for ways and means purposes in England by drawing first on your Currency gold and then on the Gold Standard Reserve We trust that this plan of action will commend itself to your Lordship, though we must admit that our feeling of security would be considerably greater could we have the assurance that we possessed in the Gold Standard Reserve a sufficient stock of liquid gold to ensure the successful conduct of such operations over a prolonged period of depression

12 In conclusion, we desire to emphasise the extreme desirability, in the interests of a stable exchange, of inspiring the public with confidence in the Currency policy of the Government Such confidence can only be acquired by placing them in possession of the methods we propose to use in order to face difficulties, and we accordingly ask permission to publish our correspondence with you on the subject

We have, &c

(Signed) MINTO
O'MOORE CREAGH
J O MILLER
W L HARVEY
G FLEETWOOD WILSON
S P SINHA
H H RISLEY

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No 25, dated 18th February 1910

MY LORD,

I have considered in Council your letter of 30th September 1909, No 236, containing an expression of your views regarding—

(1) The amount of rupees that should be held in the Gold Standard Reserve and the Paper Currency Reserve,

(2) The location of such gold as may from time to time be held in the Paper Currency Reserve,

(3) The procedure to be followed for building up sterling resources for the support of exchange

2 Your observations on the first of these questions are contained in paragraphs 6 and 7 of your Letter under reply I thought it desirable that the whole matter should be examined somewhat more fully than is done there or has been done on any previous occasion, and the enclosed Memorandum has accordingly been prepared I shall be glad if you will give to it your careful consideration, and furnish me with an expression of your opinion as to the suggestions contained therein

3 On the second question your recommendations are —

(1) That the stock of gold in the Paper Currency Reserve in India should, as soon as possible, be raised to, and if practicable maintained at, an amount equal to two-thirds of the total that can be held in gold in the Reserve The estimate which you adopt of the total holding of gold that is at present possible is, approximately, 13,000,000*l*, so that the level to which you recommend that the stock in India should be raised is 8,666,000*l* (These figures might be increased if the suggestions in the Memorandum mentioned in the preceding paragraph were adopted)

(2) That until the gold in the Paper Currency Reserve in India reaches the level that you recommend, no increase should be made in the amount of gold held in the Paper Currency Reserve in England

These recommendations evidently rest on the view that it is much more advantageous to increase the stock of gold held by the Government in India than to increase that which is held in the Paper Currency Reserve in England It is, however, a matter of no small difficulty to compare the advantages of the two courses

Gold held by the Government in India may be issued for export, or to be used as currency, or to be hoarded, or to be converted into ornaments So far as it is issued for export, it may be regarded as fully effective for the support of exchange So far as it is used as currency, it may be regarded as available wholly or in part for supporting exchange when the rate of exchange falls as low as gold export point, since it is probable that in such conditions a part at least of the amount in circulation would be exported, but when the rate falls, not as low as to gold export point, but to a figure at which it is desirable to suspend the sale of Council Bills, the gold in circulation is likely to be of little or no use for supporting exchange, at any rate immediately, since it would probably not be exported, and would obviously not be available towards defraying the Home Charges of the Secretary of State Gold that is hoarded or converted into ornaments can scarcely be regarded as available at all for the support of exchange

On the other hand gold held in England is available for supporting exchange not only when the rate falls to gold export point (when it can be used for meeting bills on London sold in India), but also at the earlier stage when the rate has fallen only to the point at which the suspension of Council Bills is desirable (when it can be used towards defraying the Home Charges) The stock is not liable to be depleted by any cause corresponding to the disappearance into hoards of gold in India When the demand for remittances is strong, gold in England is available for any purchase of silver that may become necessary

Thus the stocks of gold held in the two countries serve somewhat different purposes, and the practical conclusion that I draw is that it is desirable to hold, if possible, a substantial amount in each country I am, therefore, unwilling to commit myself to a postponement of any increase of the stock in England for the comparatively long period that may be required for raising the stock in India to two-thirds of the possible total holding in the Paper Currency Reserve As the stock of gold held by you now exceeds 5,000,000*l*, I propose to revive shortly the arrangements which were in force in 1905, 1906, and 1907 for the purchase of gold in transit to England

4 In paragraph 10 of your Letter you describe the method which should, in your opinion, be adopted with a view to building up the sterling resources of the Secretary of State and the Government of India If I understand

your proposals correctly, you suggest that in the first place the silver in the Gold Standard Reserve in excess of six crores should, as opportunity presents itself, be replaced by sterling, that when this has been done the drawings of the Secretary of State should be limited to the amount required for ways and means purposes, that when these requirements have been met, the drawings should be suspended until the gold in the Paper Currency Reserve in India is raised to the sum decided upon, and that, when the stock of gold in the Paper Currency Reserve in India has been raised to the desired level, the sale of Council Bills should be resumed, but only against the transfer of gold to the Paper Currency Reserve in this country You recommend also that the drawing of Council Bills against fresh rupee coinage should not be considered until the rupees in the Gold Standard Reserve have been reduced to six crores and the gold in the Paper Currency Department in India and England has been raised to the full amount that is desired

I presume that you recognise that, if the procedure that you recommend were approved, its adoption would, or might, extend over a series of years, since, if the drawing off of surplus rupees from the silver branch of the Gold Standard Reserve and the raising of the gold in the Paper Currency Reserve to the desired level were not completed at the end of the financial year in which these processes were begun, the resumption of the sale of Council Bills in the ordinary manner would be necessary at the beginning of the next financial year in order to provide for the requirements of the Home Treasury in that year, and the special procedure which you recommend could only be revived late in the year when these requirements had been met Thus the Secretary of State might continue for a number of years to sell Council Bills and Transfers in the ordinary manner during the earlier months of each year, sales in the latter months being either suspended altogether (if the stock of gold in India was below the desired level) or (if that level had been reached and was being maintained) effected only against the "ear-marking" of gold in London

I am unable, after the most careful consideration, to accept the view that it is desirable to regulate the sale of Council Bills and Transfers in the manner that you propose

In the first place, experience shows that the rigid procedure that you recommend is unnecessary for the building up of the sterling branch of the Gold Standard Reserve and the stock of gold in the Paper Currency Department, since without it the sterling branch of the Gold Standard Reserve has in the past been raised to the full amount of the Reserve (less the portion held, for reasons of policy, in rupees), while the stock of gold in the Paper Currency Reserve has from time to time risen not only to a sufficient, but even to an excessive, height

Secondly, I am of opinion that to carry out your recommendations consistently might at times involve very serious consequences To refuse at certain times of the year to issue rupees for trade purposes except against gold presented in India or "ear-marked" in London, might cause the periodical recurrence of stringency in the London money market, by which the Secretary of State for India in Council—owing to the frequency and magnitude of his operations in issuing and renewing loans (either direct or through guaranteed railway companies) is peculiarly liable to be injured, and by which it is also probable that the trade of India with other countries would be seriously affected

5 It seems to me to be clear that in a year of great demand for remittances to India the right course to be pursued in selling and meeting Council Bills and Telegraphic Transfers is as follows —

(a) The sales to be regulated in such manner as appears likely to stimulate the transmission of gold to India when such transmission is desirable, which is, of course, ordinarily not the case in any year until the sums required by the Secretary of State for the purposes of the Home Treasury and for converting into sterling the excess, if any, of the Gold Standard Reserve, over six crores have been received or practically assured, but the sales not to be suspended at any particular time for the purpose of forcing gold into the Paper Currency Reserve

(b) Bills and Transfers, if any, which are sold beyond the requirements of the Secretary of State (for the purposes mentioned in (a)) to be met in one or more of the following methods, viz.:—

From the Treasury balances of the Government of India, or from the silver portion of the Paper Currency Reserve (against the "ear-marking" of gold in London), or from the silver branch of the Gold Standard Reserve (the use of rupees from this Reserve being treated either as a loan to be repaid in India, or as a reduction to be made good by an increase in the sterling branch of the Reserve).

(c) The choice between the methods mentioned in (b) to be made according to the circumstances of the time.

I may add that I am entirely of the opinion, which evidently underlies the last sentence of paragraph 10 of your Letter, that the coinage of new rupees should be limited as closely as possible.

6. I am unable to accept the suggestion made in paragraph 11 of your Letter that your correspondence with me on the subjects discussed above (by which I understand you to mean your Letter of 1st April 1909, No. 87, my Despatch of 2nd July 1909, No. 82, your Letter under reply, and the present Despatch) shall be published, but I have no objection to your making public, should you think it desirable, the substance of the following decisions contained in the correspondence, viz., those communicated to you in the last sentence of paragraph 5 of my Despatch No. 82 of 2nd July 1909, and in the second sentence of paragraph 12 of that Despatch. You will, of course, understand that no public announcement should be made regarding the question of the purchase of silver, which is discussed in the Memorandum appended to this Despatch.

I have, &c.,

(Signed) MORLEY OF BLACKBURN.

Enclosure.

MEMORANDUM of the amount to be held in RUPEES in the PAPER CURRENCY RESERVE and the GOLD STANDARD RESERVE.

1. The question of the amount that should be held in rupees in the Paper Currency Reserve and in the silver branch of the Gold Standard Reserve is not one on which a decision is now called for by any practical need of the moment. A telegram from the Government of India, dated 12th February 1910, shows that in addition to the rupees in the Treasury balances, the Government holds 2,850 lakhs of rupees and about 12 lakhs of tolas of silver bullion in the Paper Currency Department and 718 lakhs of rupees in the Gold Standard Reserve. During the busy season of 1909–10 and of 1910–11 (if the monsoon of 1910 is favourable) these amounts will no doubt be reduced, partly by the substitution of gold for rupees in the Paper Currency Reserve, and partly by the substitution of sterling investments for a portion of the silver branch of the Gold Standard Reserve; but it is unlikely that either the Secretary of State or the Government of India will propose before 1911 at earliest to buy silver for the purpose of replenishing either reserve by means of additional coinage. Whenever such a proposal is made, the question at the beginning of this note will become one of great and immediate practical importance, for the answer to it will necessarily govern the decision as to the time at which, and the scale on which, the purchase of silver shall be undertaken.

The question is far from easy; and, whatever estimate may be formed and used at any time as the basis of a practical decision regarding the level at which the stock of rupees in the two Reserves shall be kept, there must always be the possibility that subsequent events will so shape themselves as to show that a different decision would have been more beneficial. If a liberal view of the requirements of the two Reserves is taken and large amounts of silver are bought and coined, trade may immediately fall off and exchange decline, rupees in the Reserves may for a long period be practically useless, and the temporary loss of the sterling resources with which they

were purchased may be a serious misfortune If, on the other hand, the more restrictive view is acted on, and the stock of rupees kept low, a sudden outburst of great trade activity may expose the Government of India to embarrassment in its attempt to cope with the demand for currency This difficulty is one which can never be avoided But it is obviously better to consider at leisure the important question involved than to leave it until a practical decision is urgently required It is therefore proposed to examine now the views expressed by the Government of India in paragraphs 5 to 7 of their Letter, No 236 (Finance), dated 30th September 1909

2 The Government of India are of opinion—

That the silver branch of the Gold Standard Reserve should not be allowed to fall below six crores, and

That they cannot at present safely hold (presumably at any period during the year) less than half of the metallic portion of the Paper Currency Reserve in rupees, and that they should have a minimum of 18 crores at the beginning of the busy season

If the practical effect of these suggestions is examined in the light of the fact that the normal volume of the Paper Currency circulation will in all probability soon be about 50 crores, with a metallic reserve of 38 crores, it will be found (*a*) that the suggestions do not really discriminate, though they do so in appearance, between the requirements of different periods of the year, and (*b*), that if they were carried out, the stock of rupees in the Paper Currency Department, and the percentage to the Paper Currency circulation, would (unless the total circulation is materially reduced or the fiduciary portion increased) be much higher during a part of the year than has been found necessary in recent years These points will be dealt with separately

(*a*) In any estimate of the amount that should be held in rupees in the various reserves it appears to be absolutely necessary to discriminate between the requirements of the various periods of the year There is, in normal years, a net absorption of rupees into the circulation for which the Government must provide in some way or other, but the absorption proceeds at different rates of speed at different seasons, and there is often during certain months a return of rupees from circulation The period of most rapid absorption is usually from October to December, when the Government cannot rely on the outturn of the mints to keep pace with the demand for rupees The return of rupees from circulation is most frequent in the quarter from April to June It is therefore evident that, if the safe minimum holding of rupees on 1st October is represented by a particular figure, the possession of a smaller amount on 1st April will ordinarily suffice The appropriate amount of the difference between the two figures will be discussed later Meanwhile, it is important to observe that, if the suggestion of the Government of India were carried out, the reserve of rupees held against the Paper Currency would, if the note circulation stands at 50 crores and the fiduciary issue at 12, be not less than 19 crores all the year round, and the additional condition purporting to require a minimum of 18 crores at the beginning of the busy season would be unnecessary

(*b*) The effect of keeping in rupees all the year round at least half the metallic portion of the Paper Currency Reserve, and also 6 crores belonging to the Gold Standard Reserve would be, assuming a gross circulation of 50 crores and a fiduciary issue of 12 crores, that the amount of rupees (19 crores) to be kept in the Paper Currency Reserve would be 38 per cent of the gross circulation, and that 25 crores in all would be held in rupees outside the Treasury balances Whether so large a holding is at any time necessary is open to question, but it seems quite certain that it is in excess of what is required at the end of the busy season, say, on the 31st of March of each year, as is shown by the following statement relating to the rupees and silver bullion that were held

in the Paper Currency Reserve and in the Gold Standard Reserve on 31st March of each year from 1900 to 1909 :—

1	2	3	4	5	6	7	8
Date	Gross Circulation of Currency Notes	Silver Coin in Paper Currency Reserve	Percentage of Silver Coin in Paper Currency Reserve to Gross Circulation	Silver Bullion in Paper Currency Reserve and in Transit	Rupees in Gold Standard Reserve	Total Rupees in Paper Currency and Gold Standard Reserves (counting the silver Bullion as Rupees)	Proportion of Total in Column 7 to Gross Circulation of Currency Notes (Column 2)
	Lakhs	Lakhs	Per cent	Lakhs of tolas* (approximately)	Lakhs	Lakhs	Per cent
31st March 1900	28,71	5,21	18·2	—	—	5,21	18·2
" 1901	29,87	9,12	30·5	2,67	—	12,09	40·5
" 1902	31,66	11,13	35·1	—	—	11,13	35·1
" 1903	35,72	10,93	30·6	—	—	10,93	30·6
" 1904	38,21	11,50	30·1	80	—	12,30	32·2
" 1905	39,18	11,36	29·0	2,55	—	13,91	35·5
" 1906	44,66	13,58	30·4	1,52	—	15,10	33·7
" 1907	46,95	13,72	29·2	7,81	6,00	27,53	58·6
" 1908	46,89	25,18	53·7	12	6,00	31,39	66·9
" 1909	45,19	31,12	68·9	12	13,88	47,12	104·3
Proposals of Government of India (taking gross circulation at 50 crores and fiduciary issue at 12 crores)	50,00	19,00	38·0	—	6,00	25,00	50·0

* The Paper Currency Reports show the cost price of silver bullion held in the reserve, but it has been assumed for the purpose of the present statement that [illegible] 150 tolas from which 100 rupees can be coined.

In dealing with these figures the particulars relating to 31st March 1907, 1908, and 1909, may be left out of consideration as belonging to a period at which the stock of rupees was admittedly excessive. At the other seven dates the total amount of silver held in the Paper Currency and Gold Standard Reserves, the proportion of coin in the former reserve to the note circulation, and the proportion of the silver in both reserves to the note circulation were all considerably lower than would probably result from the adoption of the present proposals of the Government of India, and yet there is no reason to believe that, except at the first date, the available stock of rupees or of rupees and bullion combined was found to be inconveniently low. Such inconvenience as has from time to time arisen since 1900 owing to a deficiency of rupees has been felt during the busy season, and (as is shown at the end of paragraph 3) in consequence of the stock of coined and uncoined silver at the beginning of that season having been allowed to fall too low. It is most important to guard against its recurrence, but it is not necessary or desirable for that purpose to maintain an excessive stock of rupees at a different period of the year when entirely different conditions prevail.

3. It is evident that the problem under consideration must be approached in a somewhat different manner from that which has been adopted by the Government of India, so that proper allowance may be made for the varying conditions of different periods of the year, and the best procedure appears to be to attempt to estimate—

(a) The amount of rupees that should be held in the two reserves on the 31st March of each year, which may be regarded as (approximately) the end of the period of most rapid absorption, and the beginning of the period during which a return of rupees from circulation is least unlikely.

(b) The additional amount that should be held on 1st October of each year in order to provide in advance for the demands of the period of most rapid absorption,

Any agreement that might be reached on these two points would be of very great value for regulating the purchase and coinage of silver throughout the year The following suggestions are accordingly submitted :—

(a) *Rupees to be held on 31st March of each year*—The figures in the table above appear to indicate that a stock of rupees in the two reserves equal to 35 per cent of the gross currency note circulation (*i e*, 17½ crores when the gross circulation is 50 crores) is as much as prudence requires It may be assumed that no large stock of silver bullion will be held otherwise than temporarily, so that silver bullion in the Paper Currency Reserve may be treated as the equivalent of rupees at the rate of 1 tola = 1 rupee The distribution of the stock of rupees between the two reserves and the use to be made of the holding in the silver branch of the Gold Standard Reserve, are considered in paragraphs 4, 5, and 6 below

(b) *Additional amount to be held on 1st October of each year*—In fixing this amount, the factors that have to be borne in mind are (1) the amount of possible absorption of rupees into the circulation during the busy season, (2) the extent to which it may be reasonably estimated that the mints will be able to coin new rupees during the busy season towards meeting the absorption

(1) *Amount of possible absorption during busy season*—The best *data* for valuing the first factor appear to be the figures which are given in the annual Reports of the Paper Currency Department of the net absorption of rupees into the circulation (or return of rupees from the circulation) in each quarter of each year The figures for the period 1898–99 to 1908–09 are collected in the following table —

Net absorption of rupees into circulation (+) or return of rupees from circulation (−)

Year	April to June	July to September	October to December	January to March	Whole year
	Lakhs	Lakhs	Lakhs	Lakhs	Lakhs
1898–99 -	− 21	− 18	+ 1,62	− 2,54	− 1,61
1899–1900 -	− 64	+ 4,46	+ 7,84	+ 2,27	+ 13,93
1900–01 -	+ 1,00	+ 5,06	+ 4 13	− 1,57	+ 8,62
1901–02 -	− 63	+ 11	+ 1,74	− 2,20	− 68
1902–03 -	− 3,26	− 72	+ 3,13	+ 87	+ 2
1903–04 -	+ 1,31	+ 2,54	+ 6,10	+ 99	+ 10,97
1904–05 -	+ 37	+ 3,31	+ 3,92	− 17	+ 7 43
1905–06	− 1,16	+ 3,39	+ 11,39	+ 88	+ 14,50
1906–07 -	− 24	+ 6,00	+ 10,68	+ 1,56	+ 18,00
1907–08 -	+ 1,82	+ 1,45	+ 7,35	− 6,70	+ 3,92
1908–09 -	− 7,98	− 7,18	+ 3,39	− 3 11	− 14,88

These figures suggest that the following estimates fairly represent the maximum absorption during the busy season that need be allowed for, viz —

	Lakhs
October to December - - -	11,50
January to March - - - -	2,50

(2) *Coinage during the busy season*—The portion of this absorption that it is reasonable to expect to be able to meet by new coinage during the busy season may be estimated as follows —It is understood that the Calcutta and Bombay mints together can coin the following amounts of rupees per month (in addition to small silver and copper coin), viz —

With overtime - - -	4½ crores
Without overtime - - -	2¼ crores

It would thus be possible, if a sufficient supply of bullion were available, to coin in each quarter of the busy season enough new rupees to provide for absorption to the full extent

shown above But allowance must be made for the probability that new coinage in the busy season would not be taken in hand until some time after the season had begun, and it is therefore perhaps not safe to estimate at more than 5 crores the coinage that would take place, even in a very busy year, during the October to December quarter It may be assumed that in the quarter from January to March it would be possible to coin enough rupees to keep pace with the absorption during that quarter

Thus the depletion in the busy season for which provision should be made in advance may be estimated as follows —

	October to December	January to March
	Crores	Crores
Absorption - - - -	$11\frac{1}{2}$	$2\frac{1}{2}$
Deduct new coinage - -	5	$2\frac{1}{2}$
Depletion - -	$6\frac{1}{2}$	Nil

On this basis the additional amount to be held on 1st October would be $6\frac{1}{2}$ crores and the total amount would be $17\frac{1}{2} + 6\frac{1}{2} = 24$ crores Past experience seems to show that this amount is likely to be sufficient, for difficulty is not known to have arisen in meeting the public demand for rupees except in 1900-01, 1903-4 (*see* Letter from Government of India, No 121, dated 28th April 1904) and 1905-06 (*see* Letter from Government of India, No 114, dated 26th April 1906), in which years the silver branch of the Gold Standard Reserve did not exist, and the only stock of rupees and silver bullion outside the Treasury balances was that which was held in the Paper Currency Reserve, amounting at the commencement of the busy season in the years mentioned to the following sums —

——	Silver Coin	Silver Bullion	Total
	Lakhs of Rupees	Lakhs of Tolas	Lakhs
30th September 1900 - -	5,33	—	5,33
30th September 1903 -	10,69	—	10,69
30th September 1905 - -	13,07	280 (approximately)	15,87

There is no reason to believe that difficulties would have arisen if a stock of rupees, or of rupees and silver bullion combined, calculated in the manner now proposed, had been held at the beginning of the busy season in the years mentioned

4 If it is provisionally assumed that (in the absence of any material increase in the gross circulation of currency notes) adequate provision will be made for satisfying the demand for rupees in India by preventing the stock of rupees in the Paper Currency Reserve and in the silver branch of the Gold Standard Reserve from falling below 24 crores on the 1st of October of any year, or $17\frac{1}{2}$ crores on the 31st of March, the next point to be considered is the distribution of these totals as between the two reserves In his Despatch of 2nd July, 1909 No 82 (Financial), the Secretary of State suggested that the holding of rupees in the silver branch of the Gold Standard Reserve should be reduced from six to three crores, but the Government of India, in their Letter of 30th September 1909, No 236, state that they could not view the proposed diminution "without grave concern" It must be admitted that, when once an agreement has been reached as to the total to be held in the two Reserves, the retention of a comparatively large portion in the silver branch of the Gold Standard Reserve will be advantageous for the following reason —Rupees cannot be taken from the Paper Currency Reserve except against the payment of gold to it (in England or India), or against the cancellation of notes, all of which courses may, at

certain times, present great difficulty On the other hand, rupees can be taken from the silver branch of the Gold Standard Reserve, either by way of temporary loan, or against an addition of cash or securities to the portion of the Gold Standard Reserve held in England For this reason circumstances may arise in the future, and, indeed, they have not been unknown in the past, in which it is very useful to have the option of drawing on the Gold Standard Reserve rather than on the Paper Currency Reserve for the purpose of meeting a demand for rupees It therefore appears to be wise to accept the preference of the Government of India for continuing to regard six crores as the normal holding of rupees to be retained in the silver branch of the Gold Standard Reserve

5 But, if this is to be done, it is most desirable to come to an understanding regarding the methods of repaying any loan that may be taken from the silver branch of the Gold Standard Reserve, and for this purpose it will be well to reconsider a decision that was reached in 1907 In 1906–07 a large loan of the kind in question was taken, it was not convenient to repay it from the Treasury balances of the Government of India or by a transfer of rupees from the Paper Currency Reserve against the "ear-marking" of gold in England, the idea of repaying it (temporarily at least) by means of the addition of securities to the English portion of the Gold Standard Reserve was mentioned in correspondence between the Secretary of State and the Government of India but was not adopted, it was decided instead to purchase and coin silver in order that the repayment might be effected in India, and very large purchases of silver were made early in 1907 for this purpose One consequence was that the rupees and bullion held in India rose on 31st March 1907 to a level far beyond the requirements of the Government of India It is easy to see in the light of subsequent events that the better course would have been to allow the rupee portion of the Gold Standard Reserve to remain, for a time at least, below 600 lakhs (so long as it was not practicable to replenish it by transfers of rupees from the Paper Currency Department against the "ear-marking" of gold in England) and to add (temporarily if necessary) to the sterling portion of the Reserve, in the form either of cash or of securities, the money that was actually spent on buying silver for the rupee portion The purchases of silver in 1907 would thus have been smaller, and the Secretary of State would have been in a stronger position for dealing with the exchange troubles of 1907 and 1908 The Government of India were at one time (*see* their telegram of 20th December 1906) in favour of this course, but in the latter part of paragraph 2 of their Letter of 21st February 1907, No 66, they expressed strong objections to its adoption on any future occasion, and the Secretary of State yielded to their objections, though (as will be seen from paragraph 9 of his Despatch of 26th April 1907, No 62, Financial), he did not regard their arguments as convincing It may be hoped that they will now agree that on any occasion on which a loan is to be repaid to the silver branch of the Gold Standard Reserve at a time when the combined stock of rupees in that Reserve and the Paper Currency Reserve is as high as is required according to the calculations above (or any other calculations that may be adopted in their stead)

(1) The repayment ought not to be made by means of the purchase and coinage of additional silver, and

(2) That, if there are serious difficulties in the way of making the repayment from the Treasury balances of the Government of India or by a transfer of rupees from the Paper Currency Reserve against the "ear-marking" of gold in England, there is no objection to having recourse instead to a temporary addition to the cash or securities of the sterling branch of the Gold Standard Reserve

6 If the views set forth above are accepted by the Government of India the considerations by which the purchase of silver for coinage will be regulated, subject to such modifications as further experience may suggest or a material change in the volume of the Currency Note circulation may require, may be summarised as follows —

(1) Not less than 24 crores of rupees will be held in India on the 1st of October in each year in the Paper Currency Reserve and in the silver branch of the Gold Standard Reserve, six being held, if

possible, in the silver branch of the Gold Standard Reserve, and 18 in the Paper Currency Reserve. Silver bullion in the Paper Currency Reserve will be regarded as the equivalent of rupees at the rate of one tola = 1 rupee.

(2) During the six months from October to March silver will be bought and coined to the extent estimated to be sufficient to prevent the stock of rupees in the two Reserves from falling below 17½ crores on 31st March.

(3) During the six months from April to September silver will be bought and coined as far as appears necessary in order that the reserve of 24 crores mentioned in (1) above may be attained by 1st October; but the purchase of silver will proceed gradually so that it may be discontinued if, during the six months, rupees return from circulation to such an extent as to render it probable that the level prescribed for the 1st October will be obtained without further coinage.

(4) If it appears likely that the stock of rupees in the Paper Currency Reserve will, owing to the return of rupees from circulation, exceed 18 crores on 1st October or 11½ crores on 31st March, but that the stock in the silver branch of the Gold Standard Reserve will be less than 6 crores, silver will not be purchased beyond what appears necessary in order to provide the combined reserve of 24 crores on the former date or 17½ on the latter; and any deficiency in the silver branch of the Gold Standard Reserve will be made good in due course either (a) by a transfer of rupees from the Paper Currency Reserve against either the cancellation of notes in the Treasury balances or the "ear-marking" of gold in England, or (b) by an addition to the sterling branch of the Gold Standard Reserve in England.

7. It will be noticed that all the calculations in this Memorandum are based on the figures relating to the silver portion of the Paper Currency and Gold Standard Reserves, the stock of rupees in the Treasuries being left out of account. This procedure is in accordance with the practice of the Government of India, and is probably the most convenient. If the Government of India wish to take account of the Treasury rupees in any calculations made for the purpose of regulating the purchases of silver, the figures above, and perhaps the general scheme of the calculations, must be modified.

Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No. 163, dated 6th July 1911.

MY LORD MARQUIS,

We have the honour to forward for your Lordship's information extracts from an address recently presented to His Excellency the Viceroy by the Karachi Chamber of Commerce and His Excellency's reply to the Chamber.

2. The Chamber made three suggestions: (1) that a substantial portion of the Gold Standard Reserve should be held in liquid gold, (2) that this gold should be kept in India, and (3) that the nature, objects, and management of the Gold Standard Reserve should be defined by statute.

3. His Excellency the Viceroy undertook to convey these suggestions to your Lordship, and we now submit them for your consideration. The question of the constitution of the Gold Standard Reserve was recently the subject of correspondence between the Government of India and the Secretary of State, and the latest orders on the subject are contained in Lord Morley's Despatch No. 82, Financial, dated the 2nd July 1909. We have considered the subject again in connection with this address but, though our

views are substantially in agreement with those of the Chamber, we consider it inexpedient to ask at present for any modification of the latest decision, and we are therefore unable to support the Chamber's proposals

We have, &c

(Signed) HARDINGE OF PENSHURST
O'M CREAGH
G FLEETWOOD WILSON
J L JENKINS
R W CARLYLE
S H BUTLER
SYED ALI IMAM
W H CLARK

Enclosure No 1

Extract from an ADDRESS presented to HIS EXCELLENCY THE VICEROY by the KARACHI CHAMBER OF COMMERCE

On the subject of India's Gold Standard Reserve, the Chamber are strongly of opinion that the interests of this Dependency would best be served by the retention of a substantial portion of the Reserve, in gold, in India The Chamber think that this end could best be accomplished by defining the nature, objects, and management of the Gold Standard Reserve by Statute We respectfully beg, therefore, that Your Excellency's Government will give this most important question their early consideration

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Enclosure No 2

Extract from HIS EXCELLENCY THE VICEROY'S reply to the ADDRESS from the KARACHI CHAMBER OF COMMERCE

You have referred to the question of the retention of a substantial portion of the Gold Standard Reserve in gold in India It is a complicated matter of great importance, and I have to thank you for bringing the subject to my notice I find that it has been under the most anxious consideration, more than once, between the Government of India and the Secretary of State, without whose concurrence it would be obviously impossible to make any change in the existing arrangements, but I shall be glad to convey the opinion to which you have just given expression to Lord Morley

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Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No 48, dated 29th February 1912

MY LORD MARQUIS,

IN Lord Morley's despatch No 25, Financial, dated the 18th February 1910, the views of the Secretary of State in Council were communicated upon certain questions connected with—

(a) the procedure to be followed in building up the sterling reserves of the Indian Government,
(b) The amount of gold that may appropriately be held in the Paper Currency Reserve, and
(c) the distribution of this gold between the Currency chest in England and in India,

His Lordship at the same time forwarded to us, and invited an expression of our views upon, a "memorandum on the amount to be held in rupees in the Paper Currency Reserve and the Gold Standard Reserve." These questions were, in the main, incidents of the larger issue of the adequacy of our gold reserves, which had been discussed in an earlier letter [*] from the Government of India. As the subject is one on which all fresh experience is of value, and as Lord Morley's despatch did not seem to call for an immediate reply, we deferred a further statement of our views until we had time to study the direction and the effect of certain new developments in our currency system. The situation has become clearer and more instructive since this interchange of views began in 1909.

2. It will make our present position simpler if we arrive at it by a brief review of the discussion that has taken place, avoiding reference to unessential issues as well as to mistakes which have been made and rectified. When we wrote in April 1909, the hard fact which dominated the situation, apart from all theory or speculation, was the grave loss which our gold reserve had suffered in 1908. The economic sequels of a famine in India—a famine by no means so widespread or protracted as many of its predecessors—coupled with a depression in international trade, had resulted in reducing our reserves of gold and gold securities from 24½ millions to 9½ millions in little over a year. Fortunately, the tide then turned, but the lessons which we had learnt were that our reserves were perilously weak, and that the form in which they are held was open to considerable danger. Those views were shared by the mercantile and banking community in India, and the momentous issue involved justified us in pressing them with all earnestness on the Secretary of State.

3. It was thus in no academic or controversial spirit that we urged on Lord Morley the high importance of aiming at a stronger reserve than we had previously possessed, and the desirability of keeping a larger portion of the reserve liquid, uninvested and ready for immediate use in support of a weakening exchange. Our specific proposals were (1) that the Gold Standard Reserve should be built up from accruing interest and the profits on rupee coinage, without any diversion whatsoever to other purposes, until it reached a total of 25,000,000*l.* and (2) that a substantial part of the reserve should be kept in sovereigns, to be held under as nearly as possible the same conditions as the Paper Currency gold which is "earmarked" in the Bank of England. We took the opportunity of inviting attention to the strong feeling that exists in favour of locating the reserve or a part of it in this country. Lord Morley's reply adopted a somewhat different view of the position and of the lessons to be drawn from it. He considered 25,000,000*l.* to be an exaggerated estimate of the "limit of safety" if applied to the Gold Standard Reserve alone, and he alluded to the disadvantages of locking up funds which might be profitably employed for the industrial development of India. He refused to see any danger in the cautious investment of the reserve, and he rejected several of our subsidiary arguments for keeping any large portion of the reserve in specie. His decision was (1) that our accumulation of gold need not exceed 25,000,000*l.* as an aggregate total for the sterling assets of the Gold Standard Reserve combined with the gold in the Paper Currency Reserve, and (2) that only 1,000,000*l.* of the Gold Standard Reserve need be kept uninvested, though even this amount would be available for short loans in the London market.

4. In a subsequent letter [†] Lord Minto's Government accepted these orders with regret and suggested means for working them in such a manner as to strengthen the supply of gold in our Paper Currency Department in India. The discussion then branched off into the advantages of holding gold in India for internal use, and proposals were made that the sale of Council Bills should be so regulated as to promote a freer flow of sovereigns into this country. In the letter now under reply, Lord Morley rejoined by

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* Despatch from the Government of India No. 69, dated the 1st April 1909, page 168.

† Despatch from the Government of India No. 236, dated the 30th September 1909, page 182.

discriminating between the uses of Government holdings of gold in England and in India His conclusion was that we may with advantage hold a substantial—but apparently a strictly limited—supply against the Paper Currency in this country He refused, however, to manipulate the sales of Council Bills for this purpose, and laid down certain general principles to be observed in selling and meeting Council Bills in a year of active trade remittances

5 Before we examine the various points which emerge from this review of the correspondence and which we have stated with all possible brevity, it will be convenient to touch upon the Memorandum which accompanied your predecessor's despatch of the 18th February 1910 The Memorandum embodies a calculation of the amount of rupees which safety demands that we should hold in the Paper Currency Reserve and in the silver branch of the Gold Standard Reserve combined, at different seasons of the year We may note at the outset one slight correction which the Memorandum requires In paragraph 7 it is stated that the calculations throughout ignore the stock of rupees in our treasuries, whereas we find that the table of "net absorption" near the top of the fourth page takes the treasury figures into account We should also wish to see the Memorandum amended on a point of history Paragraph 5 suggests that our objections in 1906-07 to the depletion of the silver branch of the Gold Standard Reserve led to unnecessary purchases of silver We must altogether demur to this statement of the case The facts are that in the busy season of 1906-07 there was an exceptionally heavy rush for remittances, the Bank of Bengal rate stood for several months at 9 per cent , and we were quite unable to meet the Secretary of State's drawings from our Treasury balances At the same time we had a sufficiency of rupees and bullion in the Paper Currency Department , and we begged the Secretary of State to help us by "earmarking" part of the gold that he obtained from the sale of his bills so as to let us release currency silver In place of receiving such assistance we were compelled, in our opinion inadvisedly, to borrow the whole of the silver in the Gold Standard Reserve in December 1906 , and what we did was to urge our strong objections to this course, and to press that the loan should be treated as a purely temporary one, we most certainly did not wish the Secretary of State† to send us silver which we could not use The Secretary of State, however, finally refused to earmark the necessary quantity of gold for the reason, among others, that he was obtaining 1½ per cent interest on his balances‡ , and to enable us to repay our forced loan from the Gold Standard Reserve he bought 1,000,000*l* worth of silver in March 1907 Our silver requirements for the year had been carefully calculated by us before that, and what we had asked§ the Secretary of State to do was to buy 650,000*l* worth monthly from the 15th of March, so as to let us pull up whenever we saw any danger of our supply becoming exhausted The reversal of this arrangement and the unwillingness of the Secretary of State to lock up gold which was bringing in high interest,—these are the causes that led to the heavy accumulation of silver in 1907, and we are unable to assent to any other description of the position

6 Apart from these corrections we are in general accord with the conclusions of the Memorandum They present convenient formulæ for discussing the theory of the purchase of silver But, as the writer admits, a practical decision at any given point of time must vary with the circumstances of the moment , and it is our regular procedure to take a practical decision on this important question once a quarter We review the stocks of silver and gold in our reserves , we examine the absorption of rupees at the corresponding periods of previous years , we estimate, on the basis of prices and outturn, the requirements of the particular crops—jute, rice, cotton or wheat—which are on the eve of coming into the market , and we endeavour, with the advice of local expert knowledge, to forecast in this way the probable demands for

* Viceroy's telegram, dated the 16th February 1907 page 151
† Government of India's Despatch No 66, dated the 21st February 1907 page 151
‡ Secretary of State's telegram dated the 14th February 1907 page 151
§ Viceroy's telegram dated the 17th January 1907 (not printed)

From January, however, as our revenue begins to come in and the position grows clearer, our caution could be relaxed We should be justified in drawing freely on the Gold Standard Reserve silver, so far as it might be necessary and effective to keep the Currency Reserve of silver up to 15 crores as a minimum, and provided always that our total stock of rupees in the two reserves did not fall below 17½ crores on the 31st of March All the rupees thus drawn from the Gold Standard Reserve would be transferred to the Currency Reserve in exchange for gold which we should remove from the Currency Reserve in India and deposit in the Gold Standard Reserve in India When the busy season closed, we should reverse the process, transfer gold from the Gold Standard Reserve in India to the Paper Currency Department, take rupees from the latter in exchange, and with them build up the Silver branch of the Gold Standard Reserve to its accepted figure of 6 crores In this way we should ensure the correct use of the silver branch and its restoration each year to its proper strength There would be the minimum of interference with the gold market in London We should avoid, on the one hand, the artifice of borrowing from the Gold Standard Reserve for Treasury purposes in India and paying interest on the loan, and on the other hand, the anomalous position in which the silver branch has been placed during the last two years We trust that your Lordship will allow this procedure to be recognised as our regular line of action in the future

9 We return from this digression to the question of the strength of our gold reserves,—a question of paramount importance to the success of our currency policy, to the stability of our sterling exchange, and thus to the steady progress of the trade and industries of this country In all these interests we are most anxious to eliminate differences of opinion between Your Lordship and ourselves on minor or unessential issues, and to find ourselves in a position to defend with conviction the whole range of our currency policy against the attacks and criticisms which we frequently have to answer in our Legislative Council and elsewhere To this end we accept Lord Morley's estimate of the comparative utility of our holdings of gold in England and in India respectively We should have been glad to meet the widely expressed sentiment in favour of having at least a part of our Gold Standard Reserve in India, but we recognise that, for the purpose of supporting exchange, the issue of our gold is equally, and certainly more quickly, effective in London than it would be in this country We should also be glad to keep an ample supply of gold in our Indian Currency chests, in the hope of stimulating the genuine circulation of sovereigns With this desire we understand that Your Lordship is in sympathy, and we gather that you will not interfere with the import of sovereigns into India on private account, so long as the interests of India in the London market are not thereby prejudiced, and so long as funds are assured for your Home payments Further, we entirely accept the principles enunciated in paragraph 5 of the despatch of the 18th February 1910 for the regulation of the sale and payment of your drafts upon us There thus remain only the two main issues with which this discussion began, namely, the standard figure for the sterling assets of the Gold Standard Reserve and the form in which those assets are held On the latter point we adhere to the view that a large holding of liquid gold, strictly reserved for use in emergencies, would do more to strengthen exchange than an equivalent holding of securities which it will not be easy to realise in a crisis We pressed this view on Lord Morley in April 1909, and failed to convince him But His Lordship undertook, on behalf of the Secretary of State and his advisers, the full responsibility for realising the Gold Standard Reserve securities to whatever extent may be necessary to support exchange, even in times of prolonged depression in Indian trade and of adverse conditions elsewhere We feel that we cannot ask for more than this We should have preferred to see the reserve more independent of the money market, and consequently a more prompt and powerful agency in international trade, but Lord Morley has guaranteed that it will be available whenever required, and with this practical assurance we must be content

10 On the other main issue we earnestly ask you to reconsider the existing orders When we advised that the strength of the Gold Standard

Reserve in sterling should be gradually raised to 25,000,000*l*, we had in view a figure which would be generally accepted as conclusive proof of the determination and ability of the Government of India to maintain a stable exchange Lord Morley's decision that 25,000,000*l* should be our standard *for the gold in the Gold Standard Reserve and the Paper Currency Department combined*, falls far short of what we believe to be desirable, and it has been regarded by the public with suspicion and dissatisfaction We do not contest the view, elaborated in your predecessor's despatch of the 2nd July 1909, that the gold in the Paper Currency Department forms a part of our sterling resources, and is equally effective with any other gold, so long as it lasts, in support of exchange But this particular holding of gold fluctuates for reasons over which we have little control It is liable to flow out for the demands of ordinary circulation, it is liable to disappear into hoards, and it is liable to be rapidly spent in the purchase of silver There is no calculation or stability about it, and it fails to impart the confidence in our position which is secured by adequate strength in the separate reserve that has been established solely for maintaining our Gold Standard and is incapable of being used for any other purpose Our currency gold has been most useful in the past, and will always be available as a subsidiary line of defence against a falling exchange, but our ultimate reserve should be independent of it and its fluctuations What the public want, and what in our opinion they have every reason to ask for, is a figure up to which the Gold Standard Reserve will be raised before the profits on coinage are diverted elsewhere We believe that it is a mistake to complicate the issue by any appeal to our other resources To declare a definite figure for the Gold Standard Reserve alone will clear the air and inspire confidence What that figure ought to be, is a matter of opinion, but after the experiences of 1907-08 we believe that 25,000,000*l* is advisable, as well as moderate and practicable The reserve now holds over 17,500,000*l*, and it fructifies at the rate of 500,000*l* a year even if it gains only the slow accretion of its own interest Should fresh coinage become necessary, the profits thereon would probably bring the reserve easily and rapidly to the figure which we advise Nor can we share Lord Morley's apprehension that the building up of the reserve to 25,000,000*l* will either divert funds from the industrial development of India or have an unfavourable effect on the Indian trade balance The profits on coinage and the interest accruing on sums already invested will be used in your hands either in loans to the London market or in the purchase of securities from that market In either case the total amount of gold on the market is in no way diminished, our particular gold cannot be described as locked up, and we do not understand how either the capital requirements of our industries or the current requirements of our trade can be prejudiced Even, however, if this argument contains more truth than we conceive, we would urge that the accumulation of an effective balance in support of our gold standard is worthy of some temporary sacrifices We believe, as we have said, that our proposal is moderate we cannot see that it would cause any inconvenience to India, and we are convinced that its acceptance would meet with universal approval The existing orders in our opinion do not provide for reasonable safety and it is our clear duty to urge on Your Lordship the high importance of revising them, and allowing us to declare that the Gold Standard Reserve will be raised to 25,000,000*l* before the income which now accrues to it is diverted to other purposes

We have, &c

(Signed) HARDINGE OF PENSHURST
O'MOORE CREAGH
G FLEETWOOD WILSON
R W CARLYLE
S H BUTLER
S A IMAM
W H CLARK
R H CRADDOCK

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No 76, dated 28th June 1912

MY LORD,

I have considered in Council your Letter No 48, dated 29th February 1912, discussing various questions relating to currency. I recognise with pleasure that, as you state, you have shown a strong desire to eliminate differences of opinion between the Government of India and the Secretary of State in Council on minor and unessential issues, so that the Government of India may be in a position to defend with conviction the whole range of currency policy against attack in the Legislative Council and elsewhere. It is in a similar spirit that I have considered the questions raised by you.

2. I am in general agreement with what is said in paragraph 6 of your Letter regarding the manner in which the purchase of silver for coinage should be regulated.

3. I recognise the advantage of the working rule, proposed in paragraph 8, regarding the silver branch of the Gold Standard Reserve. In this connection, however, there are two points to be noted:—

(a) The proposal in your telegram of 3rd May 1912 to add to the silver branch of the Gold Standard Reserve only the profit on any silver coinage that may be undertaken this year will in all probability prevent the standard figure of six crores from being attained before October next. If you desire to reconsider that proposal you will doubtless communicate with me.

(b) The proposed procedure of transferring rupees from the Gold Standard Reserve to the Paper Currency Reserve against a transfer of gold in the other direction is, in my opinion, one from which occasional departures may be necessary, since if rigidly applied it would deprive you of the means of utilising the former reserve for another purpose for which it may sometimes in exceptional circumstances be convenient to use it, viz., that of reinforcing your Treasury balances. Occasions may arise when those balances are insufficient to enable you to meet the Secretary of State's drawings and when they cannot be immediately supplemented by the ear-marking of gold in London without injury to Indian interests in other directions. In such circumstances it may be necessary to withdraw rupees direct from the silver branch of the Gold Standard Reserve, either against a temporary increase of the sterling branch or by way of loan. I fully recognise the objections to the latter alternative. The Government of India stated objections to the former in paragraph 2 of their Letter No 66, dated 21st February 1907, and Lord Morley acquiesced (*See* paragraph 9 of his Despatch No 62, Financial, of 26th April 1907). As the matter is one of importance, and as I am doubtful whether the decision reached in the correspondence just quoted should be regarded as final,* I shall be glad to learn your present views on the subject.

4. In paragraph 9 of your letter you mention arguments in favour of holding in gold a portion of the sterling branch of the Gold Standard Reserve. Having regard to the limited supply of suitable securities with a fixed and near date of repayment and to the undesirability of adding to the amount invested on account of the Reserve in Consols and other permanent securities, I have arrived at the conclusion that a portion of the Reserve may now be held in gold. I have therefore decided to set aside, from time to time, but at least once every six months, and to hold at the Bank of England, an amount equivalent to the interest on investments and profits on coinage hereafter received, except profits retained in India for building up the silver branch of the Reserve, until the amount so held reaches 5,000,000*l*.

* *See* paragraph 5 of Memorandum forwarded with Lord Morley's Despatch No 25 (Financial), dated 18th February 1910, page 191.

5 In paragraph 10 of your Letter you earnestly ask that a figure be fixed up to which the sterling branch of the Gold Standard Reserve shall be raised before any part of the profits of coinage is used for capital expenditure on railways, and you suggest that 25,000,000*l* is a suitable figure The adoption of such a limit, to be applied irrespectively of the amount of the gold in the Paper Currency Reserve, *involves the possibility that the total* resources held available for the support of exchange may be considerably in excess of any requirements that will ever arise, and any such excess is wasteful, as representing money needlessly withdrawn from employment on the avoidance of debt or expenditure on productive purposes It is clear that this consideration influenced my predecessor in giving the decision conveyed in his Despatch No 82, dated 2nd July 1909, and it is one of great weight On the other hand, I recognise the importance of a policy of caution in currency matters, and I desire to pursue a course which may be expected not only to strengthen general confidence but also to secure unanimity among the authorities responsible for the currency system as a whole I have therefore decided that future profits on coinage shall be added to the Gold Standard Reserve until the sterling branch reaches 25,000,000*l*

6 The fixing of the limit just mentioned adds to the importance of calculating the amount of the sterling branch of the Reserve in a manner to which no reasonable objection can be taken At present securities are valued at cost price in the monthly and other returns, and it will be seen from the enclosed statement that this had the result of showing on 13th April 1912 a total exceeding by 717,802*l* the selling value of the securities according to market quotations I propose, therefore, subject to any observations that you may have to offer, to insert market value as ascertained half-yearly, viz, on 1st April and 1st October, instead of cost price, in the monthly published statements of the Reserve I shall be glad to learn whether you have any objection to this change and from what date you think that it can be most conveniently introduced You should also state what information, if any, you will require from this country in order to enable you to introduce the change in the various statements regarding the Gold Standard Reserve which you publish in India

I have, &c
(Signed) CREWE

Gold Standard Reserve

	Stock and Securities held		Average Price at which bought	Selling Price 13th April (Minimum)	Amount that would be realised	Loss on Realisation	Gain on Realisation
	Nominal Value	Cost Price					
	£ s d	£ s d	£ s d	£ s d	£	£	£
2½ per cent Consolidated Stock	4,015,769 18 9	[illegible]07,103 8 0	90 3 7	77 17 6	3,633,168	57,99[illegible]	—
Local Loans 3 per cent Stock	200,000 0 0	195,105 13 11	97 11 1	88 15 0	177,500	17,606	—
Guaranteed 2¾ per cent Stock	438,720 9 8	407,187 4 10	92 16 3	77 15 0	341,105	66,08[illegible]	—
Transvaal Government 3 per cent (after 1923) Guaranteed Stock	1,092,122 12 0	1,076,[illegible]31 15 6	98 11 7	92 0 0	1,004,661	71,863	—
Exchequer Bonds 3 per cent (1912)	850,000 0 0	852,786 7 6	100 6 7	100 0 0	850,000	2,786	—
(1916)	1,887,000 0 0	1,871,391 16 3	99 12 8	100 [illegible] 0	1,895,311	—	21,009
British Treasury Bills	1,000,000 0 0	1,139,[illegible]22 13 3	—	—	1,4[illegible]923	—	—
Union of South Africa Bills (1913)	600,000 0 0	577,[illegible]00 0 0	—	—	577,[illegible]00	—	—
Canada 3½ per cent Bonds (1912)	378,000 0 0	383,[illegible]8 6 6	101 10 5	101 0 0	381,780	1,978	—
4 per cent Bonds (1912)	81,000 0 0	83,116 8 0	102 13 0	99 0 0	80,1[illegible]0	2,936	—
3½ per cent Bonds (1911-19)	161,000 0 0	164,436 13 6	102 2 8	100 10 0	161,805	2,632	—
New Zealand 3½ per cent Debentures (1914)	101,100 0 0	100,006 15 9	98 12 6	[illegible] 10 0	100,893	—	880
(1915)	4,000 0 0	[illegible] 15 0	100 7 6	93 10 0	11,775	395	—
Queensland 4 per cent Bonds (1915)	17,000 0 0	17,213 5 0	101 5 1	101 0 0	17,170	43	—
Stock (1915)	10,000 0 0	10,138 2 0	101 7 7	101 0 0	10,100	38	—
New South Wales 4 per cent Bonds (1915)	4,000 0 0	4,105 6 0	102 12 8	100 10 0	4,020	8[illegible]	—
3½ per cent Stock (1918)	113,000 0 0	112,111 15 0	99 10 1	98 0 0	110,710	1,702	—
Southern Nigeria 4 per cent Bonds (1916)	100,000 0 0	98,881 3 1	98 17 7	100 0 0	100,000	—	1,119
Corporation of London 3½ per cent Debentures (1913)	20,000 0 0	20,002 8 0	100 0 1	99 12 6	19,812	190	—
(1914)	20,000 0 0	20,001 0 0	100 0 0	98 17 6	19,438	561	—
3½ per cent Debentures (1915)	45,000 0 0	45,451 0 0	101 0 1	99 0 0	44,550	901	—
	17,387,313 0 5	16,792,716 2 7			11,074,744	713,816	26,014
Cash placed by Secretary of State at short notice		1,110,[illegible]3 19 1	Net loss on realisation				4717,802
		17,903,210 1 8					

	£
Towards meeting Bills on London sold in India, securities of the nominal value of 9,110,9[illegible] 19s 9d were sold in 1907-08 and 1908-09 at a net loss of	116,[illegible]
The loss on the National War Stock and Bonds redeemed on 5th April 1910 was	3,317
" Cape of Good Hope Bonds redeemed on 1st July 1911	2,914
" New Zealand Debentures redeemed on 1st April 1912	282
	153,365
The estimated loss on realisation of the securities now held added to the actual loss on the securities already sold or redeemed would therefore be	871,167
It may, however, be pointed out that the total amount received, from the date of the establishment of the Reserve to the present date in respect of Dividends, Discount on Treasury Bills (excluding Discount on Bills now held), and Interest on loans at short notice has been	2,985,867

WALTER BADOCK,
Accountant-General

India Office,
16th April 1912

Letter from the GOVERNMENT OF INDIA to the SECRETARY OF STATE, No 338, dated 29th November 1912

MY LORD MARQUIS,

WE have the honour to refer to your Lordship's despatch No 76 (Financial), dated the 28th June 1912, communicating the decision of your Lordship in Council on certain questions connected with our Currency policy and the Gold Standard Reserve

2 We welcome the decisions to allow the sterling assets of the Gold Standard Reserve to accumulate to a figure of 25,000,000*l* before the profits from coinage are diverted to outlay on railway construction and to hold a portion of the assets, fixed by your Lordship at a maximum of 5,000,000*l*, as an "earmarked" deposit in the Bank of England

3 In paragraph 3 of the despatch your Lordship has brought to our notice two points in connection with the silver branch of the Reserve The first of these refers to the proposal made in our telegram of the 13th May last in connection with silver purchases in the current year, that the silver branch should be built up from profits on coinage The profits now accruing are being paid in rupees into the silver portion of the Reserve, and it is probable that it will be restored to the standard figure of six crores before the close of the current financial year We should have been glad to see the silver holding in the Gold Standard Reserve restored to the standard figure some time earlier, but this has not been possible since the commencement of the last busy season, as the stock of rupees in the Currency Reserve did not permit of the transfer, and it was obviously undesirable to purchase silver for this purpose only We have considered in this connection whether any portion of the profits now accruing should be remitted to England for deposit in liquid gold with the Bank of England before the silver branch is brought up to six crores of rupees In view of the comparatively strong position of our Gold reserves at the present time, and the importance we attach to restoring the silver branch to its normal strength, we are of opinion that this course is not necessary and that the profits should be applied first to the building up of the silver branch

4 The other point has reference to the proposals made in paragraph 8 of our despatch of 29th February 1912 in regard to the normal procedure for utilising the silver branch of the Reserve You point out that in exceptional circumstances, that is, when a reinforcement of treasury balances in India is necessary and cannot be effected against the earmarking of gold in London, it may be convenient to withdraw rupees from the silver branch of the Gold Standard Reserve, not, as we proposed, against a transfer to the Reserve of gold in India, but either against a temporary increase of the sterling branch or by way of loan, and as the matter is important you desire with reference to previous correspondence to be informed of our present views on the subject

5 To enable us to answer your Lordship's inquiry on this point it is desirable to consider the use of the rupees in the Gold Standard Reserve from two standpoints, though these are closely inter-connected, as a question, that is to say, in the first place of currency, and secondly as a question of funds In paragraph 8 of our despatch of the 29th February last we were considering the first aspect of the case, and we stated accordingly, having regard to the circumstances which led to the constitution of the silver branch of the Reserve, that in our view the proper function of the Reserve is to act as a reservoir for *currency* purposes, and that it should be used to support the Currency, which is the main, Reserve by exchanges between the two reserves of rupees and sovereigns according to the seasonal variations of demand for currency in different forms

6 For the purpose of the discussion just mentioned we assumed in fact a state of equilibrium, with regard both to the aggregate of each kind of balance, whether treasury, Currency, or Gold Standard Reserve, and to the

distribution of these balances between England and India We have now to consider a disturbance of this equilibrium, and this amounts to a movement of funds The first case of this kind mentioned by your Lordship is that in which an actual loan is taken from the Gold Standard Reserve in aid of treasury balances, this, we agree, must be a very exceptional case, and could be justified only when there is an insufficiency in the aggregate treasury balances held in India and in England The ordinary case is that of transfer of Government funds from India to London, and generally of course this is effected through treasury The question is what course should be adopted if the treasury balance in India is exhausted and the drawing of further Council bills is necessary This question, we may observe, though we have described it as one of funds, is connected also with currency, for the bulk of our payments in India has to be made in rupees For this reason we hold that to have immediate recourse to the Gold Standard Reserve would be inconsistent with the policy of treating the stock of rupees it contains as a real reserve, and in the case stated we think that the requisite drawings should be made through currency It is only in the last resort that the Gold Standard Reserve should be utilised for this purpose, but we recognise that in certain conditions of the home market the earmarking of gold involved in drawing through currency might be undesirable and prejudicial to Indian interests, and if such an exceptional emergency were to arise we do not, so far as we can judge at present see much objection to a temporary investment in England on behalf of the Gold Standard Reserve in easily realisable securities against a withdrawal of rupees in India in aid of treasury balances

7 It will be observed that in the course of the present correspondence the conception of what is now known as the silver branch of the Gold Standard Reserve has been considerably modified In the first place, under the proposals made in our despatch of the 29th February, it may now, according to the season of the year, consist indifferently of gold or silver, and in view of this development it might now more appropriately be designated the Indian branch of the Gold Standard Reserve Secondly its relation to the Currency Reserve has been clearly set out, and as the manner in which it will be used to supplement and support the Currency Reserve will in future make it more of a real reserve, we think it very important that it should be maintained at what has been accepted as the normal amount of six crores This point has already been mentioned in our earlier despatch but its importance is enhanced by our present recommendations regarding the possible use of the Gold Standard Reserve in reinforcing our treasury balances Should the Indian branch at any time be depleted when the treasury balance in this country was low then, whatever might be the state of the market at home, there would be no option if further Council Bills were required, but to draw through Currency The argument based on considerations of currency therefore in favour of maintaining the Indian branch of the Gold Standard Reserve at full strength is reinforced by the desirability of keeping in reserve an alternative method of effecting a transfer of funds

8 We cordially agree with the suggestion in the concluding paragraph of your despatch that the periodical publications of the balance of the Gold Standard Reserve should show the current market price of investments in securities instead of the original purchase price This procedure will be followed in the monthly publications in India, commencing with that for the 31st December next, and in the quarterly publications commencing with that for the quarter ending on the same date The only statements regarding the position of the Gold Standard Reserve which we publish annually are those contained in the Finance and Revenue Accounts—*vide* Accounts No 88 and 88A for 1910-11 and in the Comptroller-General's annual report on the operations of the Currency Department The latter will show market price in future As regards the former, the substitution of market price for purchase price would result in showing as an actual debit what is only a difference in valuation and we do not think such a procedure is either contemplated or necessary We will accordingly make

no change in the method of preparing these statements, but the market price will be stated in a footnote to Account No 88A

9 We agree also that the publications referred to in the preceding paragraph should show the market value as ascertained half-yearly on 1st April and 1st October The result of this procedure will be that purchase price instead of market value will be shown in the case of investments made since the last half-yearly valuation, and if your Lordship sees no objection, it will be convenient to split up item 3 in the monthly publication as follows —

"3 British and Colonial Securities, &c, held on
(market price on)
4 British and Colonial Securities since purchased
(cost price)"

10 In order to give effect to these proposals, it will be sufficient if the figure for "market price" is substituted for "cost price" in your monthly telegram to the Comptroller-General which will be sent in the beginning of January next, the increase or decrease as compared with the preceding report being also given as a check figure The result of the half-yearly valuations may also be reported either separately or through the monthly returns regarding the transactions of the Gold Standard Reserve furnished to the Comptroller-General

We have, &c
(Signed) O'MOORE CREAGH
GUY FLEETWOOD WILSON
W H CLARK
R H CRADDOCK

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No 13 F, dated 24th January 1913

MY LORD,

I HAVE considered in Council your letter in the Finance Department, No 338, dated the 29th November 1912, regarding certain subsidiary questions connected with the Currency and Gold Standard Reserve

2 We are in agreement in holding that when, in order to meet the pressing requirements of trade, I am compelled to sell Bills and Telegraphic Transfers beyond the extent to which you are able to meet them from your Treasury balances, the ordinary and most desirable course to be followed is that you should withdraw funds from your Currency Reserve to meet my drawings, an equivalent sum being transferred by me in gold to the Paper Currency Reserve held at the Bank of England But we are also agreed that circumstances may arise in which this cannot be done, at any rate on a large scale, without injury to Indian interests, and that in such cases it may be necessary for you to supplement your resources for meeting my Bills by drawing upon the portion of the Gold Standard Reserve held in India, and I note with gratification that you now accept the view expressed in paragraph 2 of Lord Morley's Despatch of 16th November 1906, No 135, in paragraph 9 of his Despatch of 26th April 1907, No 62, and in paragraph 5 of the memorandum forwarded with his Despatch of 18th February 1910, No 25, that in such an event the preferable course wherever practicable, is that the sum remitted to England from the Gold Standard Reserve should be temporarily added to the portion of the Reserve held in England rather than treated as a loan from the Reserve to the Treasury balances

3 In paragraph 7 of your letter you observe that under the arrangements proposed in your previous letter of 29th February 1912, and approved in my Despatch of 28th June, the silver held in the Gold Standard Reserve

in India may be partly replaced by gold during a portion of the year, and that thus the designation "Silver Branch of the Gold Standard Reserve" will become inappropriate, and you propose to re-name the portion of the Reserve held in India the "Indian Branch of the Gold Standard Reserve" I approve this recommendation

4 I also accept the suggestions made in paragraphs 8–10 of your letter in regard to the future publication of statements showing the composition of the Gold Standard Reserve Valuations of the Reserve will henceforth be made on the 31st March and 30th September, and their results will be communicated to your Comptroller-General with the detailed accounts sent to him early in April and October

5 As the Indian branch of the Reserve may in the future sometimes contain a considerable amount of gold, it may be well to place on record that the intention of paragraph 5 of my Despatch of 28th June 1912, No 76, was that the minimum of 25,000,000*l* there mentioned was to be exclusive of any gold held in the Reserve in India To avoid misunderstanding on this point it will be convenient to designate the portion of the Reserve held in this country as the "London branch" of the Reserve

I have, &c
(Signed) CREWE

Despatch from the SECRETARY OF STATE to the GOVERNMENT OF INDIA, No 76, dated 23rd May 1913

MY LORD,

I FORWARD herewith a Memorandum and Statement giving fuller information regarding the matter discussed in the latter part of paragraph 5 of your Letter No 18, dated 29th February 1912

I have, &c,
(Signed) CREWE

Enclosure No 1

Purchases of Silver in 1907

In the series of Despatches noted in the margin* many important questions relating to the Gold Standard Reserve were, for the time being, settled between the Secretary of State and the Government of India There is one question on which the discussion was left incomplete, viz, the causes of the large accumulations of silver in the Reserves of the Government of India in 1907

The course of events is discussed, but not quite fully stated, in the passages mentioned in the margin † It may be briefly summarised as follows In the winter of 1906–07 sales of Council Bills and Telegraphic Transfers were made in excess of the amount that the Government of India could meet from Treasury balances The Government of India desired that the excess should be provided for by "earmarking" gold in London, *i e*, by the addition of gold to the portion of the Paper Currency Reserve held in London so as to enable a corresponding amount to be taken in rupees from the Paper Currency Reserve in India The Secretary of State (mainly for

* Secretary of State to Government of India, dated 18th February 1910, page 185
Government of India to Secretary of State, dated 29th February 1912, page 195
Secretary of State to Government of India, dated 28th June 1912, page 201
Government of India to Secretary of State, dated 29th November 1912, page 204
Secretary of State to Government of India, dated 24th January 1913, page 206

† Paragraph 5 of Memorandum forwarded with Secretary of State's Despatch of 18th February 1910 page 193
Paragraph 5 of Despatch from Government of India, dated 29th February 1912, page 197

the reasons given in paragraph 3 of his Despatch of 26th April 1907, No 62, Financial) did not fully meet the wishes of the Government of India in this matter, though he increased the "earmarked" gold in England from 4,250,000*l* to 8,100,000*l* between November 1906 and April 1907 The excess Council Bills and Telegraphic Transfers, so far as not met in this way, were met by taking loans from the Indian branch of the Gold Standard Reserve, and it was decided to buy silver in order to provide for the repayment of the loans and the restoration of the Indian branch to its normal amount of six crores (4,000,000*l*) by 31st March 1907 This was duly done, and on the date mentioned the Paper Currency Reserve and the Indian Branch of the Gold Standard Reserve included silver as follows (*see* Statement attached) —

	Lakhs
Paper Currency Reserve Rupees - -	13,70
Paper Currency Reserve Bullion (in tolas) approximately - - - - -	6,81
Indian Branch of Gold Standard Reserve Rupees - - - - -	6,00
	26,51

This was considerably in excess of the amount (17,50 lakhs) required on 31st March according to the standard suggested in the Memorandum forwarded to the Government of India with the Secretary of State's Despatch of 18th February 1910, No 25 (Financial), and accepted, with certain reservations, in paragraph 6 of the Despatch from the Government of India dated 29th February 1912 But, as the absorption of rupees by the public from April to September 1907 from the two Reserves was 2,12 lakhs, the amount held on 1st October 1907, if no purchases had been made after 31st March 1907, would have been 26,51 − 2,12 = 24,39 lakhs, or a little more than the 24 crores suggested and accepted in the correspondence just mentioned

The amount actually held in rupees and silver on 30th September was (*see* Statement attached) as follows —

	Lakhs
Paper Currency Reserve Rupees - -	22,79
Paper Currency Reserve Bullion (in tolas) approximately - - - - -	3,52
Indian Branch of Gold Standard Reserve Rupees - - - - -	6,00
	32,31

An insignificant part of the excess of this total over the 24,39 lakhs quoted above was due to the addition to the Reserves after 31st March 1907, of 100,000*l* worth of silver in completion of orders given before that date The greater part was due to the following purchases of silver made (*see* Statement attached) between 31st March and 30th September 1907 —

	£
By the Secretary of State, in accordance with requests made by the Government of India in telegrams of 16th May, 10th June, 1st July, and 20th August 1907 - -	2,529,000
By the Secretary of State in addition to the above - - - - - -	9,800
By the Government of India in India -	1,528,000
Total -	4,066,800

The out-turn in rupees from this silver was approximately 7,97 lakhs.

It may be assumed that the purchases would not have been made if the understanding embodied in the Memorandum forwarded with Lord Morley's Despatch of 18th February 1910, and in paragraph 6 of the Letter from the Government of India, dated 29th February 1912, No 18, had been in force in 1907

Enclosure No 2

SILVER HELD BY THE GOVERNMENT OF INDIA, AND PURCHASE

Week ending (1)	Silver Coin in Paper Currency Reserve (2)	Uncoined Silver in Paper Currency Reserve (including Silver in transit as shown in Column 8) — Value in Lakhs (3a)	Uncoined Silver in Paper Currency Reserve — Equivalent in Tolas† (approximate) (3b)	Silver held in India for Gold Standard Reserve (4)	Totals 2 + 3a + 4 (5)
1907	Lakhs	Lakhs		Lakhs	Lakhs
January 7	13,89	[illegible]	7 12	10	21,11
„ 15	12,69	5 [illegible]	7 19	10	19 0[illegible]
„ 22	13,82	4 15	[illegible],42	[illegible]	19,82
„ 31	14 12	4,72	[illegible]	75	19 7
February 7	14 09	[illegible]	[illegible]	[illegible]	19 [illegible]
„ 15	14,36	4 75	4 94	1 1[illegible]	20 [illegible]
„ 22	14,82	[illegible]72	4 [illegible]	1 [illegible]	21 07
„ 28	15 69	4,72	4 [illegible]	1 56	22 11
March 7	15 06	[illegible]73	[illegible]	2 71	22 [illegible]
„ 15	14,31	4 69	[illegible]	2 0[illegible]	22 11
„ 22	13,96	4 [illegible]	[illegible]	5 16	[illegible]
„ 31	13 70	5,21	6 [illegible]1	6,00	[illegible]
April 7	13 34	[illegible]	6 [illegible]	6 00	[illegible] 72
„ 15	13 55	4,27	[illegible]	6 00	[illegible]
„ 22	13,53	4,94	5 1[illegible]	6 00	24 [illegible]
„ 30	14 27	[illegible]	4 61	6 00	[illegible]
May 7	14,16	3 13	4 09	6 00	[illegible]
„ 15	14 35	2 72	3 56	6 00	[illegible]
„ 22	14,62	2 44	3 19	6 00	23,81
„ 31	15 30	2 17	2,84	6,00	[illegible]
June 7	15,25	1 92	2,51	6,00	23 76
„ 15	16 55	1 63	2,13	6 00	24,6[illegible]
„ 22	17 33	1,63	2,13	6 00	[illegible]
„ 30	18 95	1 49	1 9[illegible]	6 00	26,[illegible]
July 7	18,94	1 49	1 95	6 00	[illegible]
„ 15	19,72	1 41	1,84	6 00	27 [illegible]
„ 22	20,36	1 41	1,84	6,00	[illegible] 20
„ 31	21,41	1,59	2,08	6 00	29 [illegible]
August 7	21,43	1,71	2 23	6,00	29 [illegible]
„ 15	22,01	2 11	2 76	6,00	30 77
„ 22	22,45	2 02	2 64	6,00	31 [illegible]
„ 31	22 63	1,65	2 16	6 00	30 79
September 7	21,99	2,12	2 77	6,00	30 76
„ 15	21,61	2 37	3,10	6 00	30 71
„ 22	21,81	2 67	3 49	6 00	31 30
„ 30	22,79	2 69	3,52	6 00	32 51
October 7	22,45	2,71	3 51	6 00	31 09
„ 15	21,79	2,71	3 54	6,00	31,13
„ 22	21 51	2 55	3 33	6,00	30 84
„ 1	21,55	2,07	2,71	6 00	30,26

† A rupee contains a tola of silver

Enclosure No 2

AND SHIPMENTS OF SILVER FOR COINAGE, IN 1907

Silver bought by India Office and Shipped from London			Silver purchased for delivery in India otherwise than by shipment from London (bought by Government of India unless otherwise stated)		
Amount Shipped	Date of Shipment	Date of Order	Amount	Date of Delivery	Date of Order
(6)	(7)	(8)	(9)	(10)	(11)
£			£		
100,000	25th January	The Government of India on 17th January asked the Secretary of State to buy silver at the rate of 650,000*l* a month The Bank of England was asked on 18th January to buy until further orders On 9th March the Bank was instructed to cease buying when 3,280,000*l* had been bought Taking account of the 151,000*l* shown in column 9, this limit was reached on 19th March			
210,000	1st February				
320,000§	8th February				
304,000	9th February				
300,000	15th February				
302,000	22nd February				
315,000	1st March				
272,000	8th March				
210,000	9th March		202,000	21st March	20th and 27th February
258,000	15th March		482,000	26th March	
137,000	22nd March		10,000*	27th March	26th February
123,000	23rd March		151,000*‡	27th March	18th January
180,000	28th March				
7,000	5th April				
93,000	6th April				
113,000	24th May	On 16th May the Government of India asked for 1,000,000*l* worth of silver, and this amount was ordered the same day			
72,000	1st June				
85,000	7th June				
100,000	15th June	On 10th June they asked for 500,000*l* and this was ordered on 21 June			
145,000	21st June				
170,000	28th June				
		On 1st July they asked for 500,000*l* and this was ordered on 9th July			
120,000	5th July		9,800*	5th July	28th May
158,000	12th July		22,000*‡	29th July	20th June
259,000	19th July		110,000	29th July	11th July
41,000	26th July		218,000	29th July	About 20th July
52,000	27th July				
			55,000*‡	8th August	
			56,000*‡	9th August	
273,000	10th August		300,000	26th August	26th July
150,000	16th August		100,000	26th August	3rd August
87,000	23rd August	On 20th August they asked for 1,000,000*l* but the amount was reduced on 19th Sept to 750,000*l* 500,000*l* worth was ordered on 23rd Aug, and 250,000*l* worth on 20th Sept	41,000*‡	28th August	23rd July
			154,000	29th August	26th July
45,000	6th Sept				
160,000	7th Sept		300,000	9th Sept	16th August
100,000	13th Sept		346,000	25th Sept	26th–28th August
85,000	20th Sept		25,000*‡	25th Sept	
115,000	27th Sept				
184,000	4th October		16,000	1st October	About 30th Sept
36,000	11th October				

* Purchased by India Office
‡ Included in amounts ordered as shown in column 8
§ 20,000*l* of this was paid for on delivery in Bombay on 4th March and did not form part of the Paper Currency Reserve till that date

APPENDIX VI

NOTE ON PROPOSALS FOR THE COINAGE OF GOLD IN INDIA, SUBMITTED BY MR L ABRAHAMS, C B, ASSISTANT UNDER SECRETARY OF STATE FOR INDIA

1 The Indian Currency Committee of 1898–99 said in paragraph 54 of their Report —"We are in favour of making the British sovereign a legal " tender and a current coin in India We also consider that at the same " time the Indian Mints should be thrown open to the unrestricted coinage " of gold on terms and conditions such as govern the three Australian " branches of the Royal Mint The result would be that, under identical " conditions, the sovereign would be coined and would circulate both at " home and in India Looking forward as we do to the effective establish- " ment in India of a gold standard and currency based on the principles of " the free inflow and outflow of gold, we recommend these measures for " adoption "

2 The recommendation that gold coin should be a legal tender was carried out by the passing of Act XXII of 1899, which provided that "gold coins, " whether coined at Her Majesty's Royal Mint in England, or at any Mint " established in pursuance of a Proclamation of Her Majesty as a branch of " Her Majesty's Royal Mint, shall be a legal tender in payment or on " account at the rate of fifteen rupees for one sovereign "

3 The proposal for the coinage of gold in India was discussed by the Secretary of State with other authorities in this country and with the Government of India between 1899 and 1903, and again in 1912 The correspondence on the subject has been published in Parliamentary Paper 495 of 1913 The chief points in the discussion may be summarised from the Parliamentary Paper as follows —

i From 1899 to 1902 the correspondence between the Secretary of State and the Government of India proceeded on the assumption that the early establishment at Bombay of a branch of the Royal Mint for the coinage of sovereigns was desirable

ii A legal difficulty arose (page 14) as to the possibility of dispensing with a charge for coinage This was in due course disposed of (page 27)

iii Similarly, questions regarding the suitability of the buildings, appliances, and staff at Bombay were raised, but these were practically disposed of by May 1901, when a plan agreed to by the Deputy Master of the Royal Mint and an officer of the Government of India was approved by the Treasury (page 55)

iv The question whether the coinage of gold in India was really necessary and desirable was raised by the Treasury during the discussion of the legal and technical difficulties As against the Secretary of State's view that it would maintain confidence in the Gold Standard as being " the clearest outward sign that can be given of the consummation of the new currency system" (page 54), the Treasury said "Indian " currency needs are, in fact, provided for from other sources [i e , " the importation of sovereigns], and there is no real demand for the " local coinage of sovereigns My Lords cannot believe that the " position of the gold standard in India will be strengthened, or " public confidence in the intentions of the Government confirmed, by " providing machinery for obtaining gold coins which is neither " demanded nor required by the mercantile community, while on the " other hand, the failure or only partial success of a gold mint would " undoubtedly be pointed to by the opponents of the gold standard " policy, although without justification, as evidence of the breakdown

"of that policy The large measure of confidence already established "is sufficiently indicated by the course of exchange since the "Committee's Report, and still more by the readiness with which gold "has been shipped to India This confidence is, in the opinion of "this Board, much more likely to be put in jeopardy by such a result, "of which the danger is by no means remote, than by the frank "abandonment of one of the details of the policy recommended by the "Indian Currency Committee, which experience has shown to be "unnecessary" (Page 55)

v Discussion on the points raised by the Treasury came to a natural end when in December 1902 the Government of India wrote to the Secretary of State as follows "We have now ascertained that the chief "mining companies have made arrangements, with which they are at "present satisfied, for the regular sale of their gold in London, and "we are doubtful whether any terms that we could offer with a due "regard to our own interests would induce them at an early date to "alter those arrangements and to bring their gold to the mint in "Bombay In the absence, therefore, of an assurance that a steady "and permanent supply of gold of local production would be available "for coinage in this country, we prefer to drop the scheme for the "present, leaving its revival to the existence or revival of conditions "which cannot at present be foreseen" (Page 56) The Secretary of State agreed with the Government of India that the proposal for a Bombay branch of the Royal Mint should not be proceeded with for the present (Despatch of 6th February 1903)

4 The discussion which ceased in 1903 was revived in 1911 when Sir V D Thackersey spoke in the Viceroy's Legislative Council in support of the issue of an Indian gold coin from one of the Indian mints In 1912 he moved a Resolution "that this Council recommends to the Governor-General in "Council that the Indian mints be now thrown open to the free coinage of gold "in coins of suitable denominations" He expressed a preference for a ten rupee gold piece The Resolution was withdrawn on the receipt of an assurance by the Financial Member of Council that the matter would be laid before the Secretary of State The communication to the Secretary of State took the form of the Despatch dated 16th May 1912 (pages 57 to 63 of Parliamentary Paper) recommending that arrangements should be made, on a small scale at first, for the coinage of sovereigns at the Bombay Mint The proposal rested to a considerable extent on the belief that holders of gold bullion and ornaments would be induced to convert part of them into coin if a mint were established The Secretary of State found on consulting the Treasury that any mint in India for coining sovereigns would have to be under the control of the Imperial authorities, and that, therefore, the only alternatives were to set up a separate gold mint under such control, or to transfer to the Imperial authorities the whole of the operations of the Bombay Mint including the coinage of rupees as well as sovereigns To avoid both of these alternatives, he suggested the coinage at Bombay of a ten rupee gold piece, as advocated by Sir V D Thackersey (pages 65 and 66) The Government of India have indicated a preference for this over both the alternatives proposed by the Treasury, but the whole matter is left open, pending the recommendations of the present Royal Commission

5 The following information may perhaps be of use to the Commission in considering the question —

6 The attached Statement shows that from 1901–02 to 1912–13 the gross imports of British gold coin into India amounted to 97,473,000*l*, the exports (mainly on Government account *) to 23,665,000*l*, and the net imports to 73,808,000*l*

7 When sovereigns are imported into India they are, as a rule, tendered to the Governmen in order that rupees or notes may be issued in exchange for them at the ratet of Rs 15 = 1*l* The proportion of the total imports

* Down to 1905–06 the Government exports represented (1) gold sent by the Government of India to the Secretary of State to pay for silver, for securities bought for the Gold Standard Reserve, and to meet other disbursements, (2) 5,000,000*l* sent in 1905–06 to establish the English branch of the Paper Currency Reserve The Government exports since 1905–06 have consisted of light coin sent to England because it would have been inconvenient to retain it in India

tendered by the importers to the Government from 1905-06 to 1912-13 is shown in Statement II accompanying my Memorandum on the "Location "and Management of General Balances of the Government of India and Sale "of Council Bills and Transfers"

8 Sovereigns received by the Government are made freely available to the public against the tender of rupees, or in encashment of notes, at the rate mentioned above The Receipts and Issues of British gold coin into and from Government Treasuries and Reserves under this system were approximately as follows in 1909-10, 1910-11, 1911-12, and 1912-13 —

—	1909-10	1910-11	1911-12	1912-13
	£	£	£	£
Receipts by Government from Importers	7,139,000	7,626,000	17,053,000	16,939,000
Other Receipts (i e, Receipts from general public)	894,000	3,727,000	6,869,000	11,393,000
Total Receipts -	8,033,000	11,353,000	23,922,000	28,332,000
Issued to public -	1,689,000	11,073,000	14,617,000	21,815,000
Light coins exported	—	—	—	2,383,000
Total Issues - -	1,689,000	11,073,000	14,617,000	24,198,000
Net Receipts*	6,344,000	280,000	9,305,000	4,134,000

9 The absorption of sovereigns in India by the public from 1899-1900 to 1912-13, (i e, the amount that has passed into the possession of the public either direct from importers or from Government Reserves and Treasuries), is shown in the Statement appended to this Note The total is 61,815,000l

10 The latest investigations into the extent to which the sovereigns absorbed by the public are used as currency will be found in Mr Gillan's Report on the Paper Currency Department for 1910-11 and Mr Gauntlett's Report for 1911-12 Both writers seem to be of opinion that the use of the sovereign as currency is on the increase in Bombay, Northern India, and Madras, but that elsewhere it is largely used for melting or hoarding or both, which would appear to militate to some extent against the probability of the establishment of a gold mint in India leading to any great extent to the conversion into coin of gold now held in the form of bullion and ornaments

11 The gold extracted from Indian mines amounts to a little more than 2,000,000l a year The amount has shown very little variation during the last ten years

12 No estimate has been framed of the cost of establishing an Indian mint for the coinage of sovereigns An approximate statement of the staff

* The net receipts and issues in this Table differ somewhat from those shown in Statement II (2) accompanying my Memorandum on the "Location and Management of General Balances of the Government of India and Sale of Council Bills" (page 85) and from the corresponding ones that could be deduced from the figures in the Statement appended to this note The comparison is as follows —

Net Receipts (+) or Issues (—)

—	1909-10	1910-11	1911-12	1912-13
	£	£	£	£
Shown in Statement II	6,339,000	59,000	9,344,000	4,135,000
Shown in Table above	6,344,000	280,000	9,305,000	4,134,000

The differences are due to the fact that the figures in Statement II are based as to the first three years on the information given in the Reports of the Paper Currency Department and as to 1912-13 on information specially furnished by the Comptroller General and Head Commissioner of Paper Currency whereas those in the Table above are compiled from the telegrams (four in each month) sent by the Comptroller General to the Secretary of State The figures in those telegrams are in thousands of pounds (which would explain such slight divergences as are shown in 1909-10 and 1912-13) but the telegrams sent in 1910-11 and 1911-12 presumably contained errors that were tacitly corrected in the annual statements

required for a mint capable of coining 2,000,000*l* a year was drawn up in 1900, and will be found on pages 40 to 42 of the Parliamentary Paper It will be seen that it includes a superior controlling staff of seven Europeans and five Indians, and a subordinate working staff of 13 The establishment charges (including contingencies and pensions) of other branch mints of similar capacity were in 1911 as follows —

—	Coinage	Charges	—
	£	£	
Sydney - -	2,645,000	15,157	(Page 127 of Report of Deputy Master of Royal Mint)
Melbourne - - -	2,851,000	15,721	(Page 137)
Perth (excluding pensions) -	4,438,000	20,178	(Page 151)

The Australian Branch mints recover a substantial portion of their expenditure by the levy of Charges for the Coinage of Gold as allowed by Section 11 (8) of the Coinage Act of 1870 The view that has always been taken in discussions regarding a Branch Mint for the coinage of gold in India has been that there should be no corresponding charge in any such Mint (see pages 19, 27, and 60 of the Parliamentary Paper)

STATEMENT of Imports and Exports of British Gold Coin to or from India, Amount of such Coin held by the Government of India, and Absorption by Public

Year	Imports			Exports			Net Imports			Amount of Sovereigns and Half Sovereigns held in Government Treasuries and Reserves at end of Year	Absorption by Public during Year
	On Private Account	On Government Account	Total	On Private Account	On Government Account	Total	On Private Account	On Government Account	Total		
	£	£	£	£	£	£	£	£	£	£	£
1899–1900	—	—	—	—	—	—	—	—	—	—	2,700,000
1900–01	—	—	—	—	—	—	—	—	—	6,225,000	2,049,000
1901–02	3,511,000	6,000	3,517,000	148,000	1,614,000	1,762,000	3,363,000	− *1,608,000*	1,755,000	7,003,000	977,000
1902–03	5,782,000	30,000	5,812,000	368,000	398,000	766,000	5,114,000	− *368,000*	5,046,000	9,897,000	2,152,000
1903–04	8,645,000	11,000	8,656,000	188,000	4,170,000	4,358,000	8,457,000	− *4,159,000*	4,298,000	10,912,000	3,283,000
1904–05	8,690,000	—	8,690,000	113,000	5,605,000	5,718,000	8,577,000	− *5,605,000*	2,972,000	10,941,000	2,943,000
1905–06	3,990,000	4,000	3,994,000	1,151,000	5,955,000	7,106,000	2,839,000	− *5,951,000*	− *3,112,000*	1,032,000	3,797,000
1906–07	5,319,000	42,000	5,361,000	410,000	—	410,000	4,909,000	42,000	4,951,000	3,848,000	5,135,000
1907–08	6,434,000	12,000	6,446,000	12,000	—	12,000	6,422,000	12,000	6,434,000	2,897,000	7,385,000
1908–09	1,079,000	—	1,079,000	239,000	215,000	454,000	840,000	− *215,000*	625,000	86,000	3,432,000
1909–10	9,232,000	9,000	9,241,000	26,000	2,000	28,000	9,206,000	7,000	9,213,000	6,425,000	2,874,000
1910–11	8,540,000	—	8,540,000	378,000	—	378,000	8,162,000	—	8,162,000	6,484,000	8,103,000
1911–12	18,342,000	—	18,342,000	114,000	—	114,000	18,228,000	—	18,228,000	15,828,000	8,884,000
1912–13	17,795,000	—	17,795,000	630,000	1,929,000	2,559,000	17,165,000	− *1,929,000*	15,236,000	19,963,000	11,101,000
Total	97,359,000 (12 years)	114,000 (12 years)	97,473,000 (12 years)	3,777,000 (12 years)	19,888,000 (12 years)	23,665,000 (12 years)	93,582,000 (12 years)	− *19,774,000* (12 years)	73,808,000 (12 years)	—	64,815,000 (14 years)

APPENDIX VII

Memorandum on the Sale of Council Bills and Telegraphic Transfers submitted by Mr F W Newmarch, Financial Secretary

The method of drawing funds from India to meet the Home charges, first of the East India Company, and later of the Secretary of State for India in Council, by means of Bills of Exchange on India, dates back from the early part of the last century It was mooted in correspondence between the Court of Directors and the Government of India in 1813, it appears to have been practised, though somewhat intermittently, from 1834 down to the time of the Indian Mutiny, and, after an almost entire suspension in the years 1857–62, it was resumed in the latter year, and has been almost continuous ever since

2 Sales of the Secretary of State's Bills were at first made (1862) monthly, and at a fixed rate of exchange By a series of changes, fortnightly and then weekly sales were substituted for monthly ones, allotments to the highest bidder took the place of sales at a fixed price, tenders were invited (1876) for telegraphic transfers as well as for bills, on India, reductions were made in the minimum fraction* of a penny per rupee in the price at which tenders would be received, and applications were invited and received for bills and telegraphic transfers on dates intermediate between the regular fortnightly or weekly sales Bills and transfers so sold are described as "Intermediates" or "Specials"

3 The present procedure is as follows —On each Wednesday a notice is exhibited at the Bank of England inviting tenders, to be submitted on the following Wednesday, for Bills of Exchange and Telegraphic Transfers on the Government of India, the Government of Madras, and the Government of Bombay The notice states a limit which the aggregate allotments will not exceed The tenders are opened at the Bank of England at one o'clock on the day of submission in the presence of the Governor or Deputy Governor, or both, of the Bank, with one or two of the permanent staff of the Bank, generally two members, or at least one, of the Council of the Secretary of State for India, and the Financial Secretary or the Assistant Financial Secretary of the India Office

4 The Secretary of State does not bind himself to allot the whole amount mentioned in the notice As a matter of practice, he does not accept any applications at prices lower than 1*s* $3\frac{29}{32}d$ for Bills and 1*s* $3\frac{15}{16}d$ for Telegraphic Transfers As to a maximum price, *see* paras 22–27

5 The price charged for Telegraphic Transfers is ordinarily higher by $\frac{1}{32}d$ per rupee ($\frac{1}{16}d$ when either the Calcutta or the Bombay Bank rate exceeds 8† per cent) than that charged for bills Thus tenders for Telegraphic Transfers at 1*s* $4\frac{1}{32}d$ (or at 1*s* $4\frac{1}{16}d$ with Bank rate 9 per cent or upwards) rank for allotment with tenders for bills at 1*s* 4*d* and so on

6 Subject to this differentiation and to the conditions mentioned in para 4, allotment is made to the highest bidders, and when the total amount tendered for exceeds the amount offered, allotment is made *pro ratâ*

7 When the tenders received on a Wednesday have been dealt with, the amount to be offered for tender on the following Wednesday is decided upon This involves consideration of the average amount required to be drawn weekly up to the end of the financial year so as to work up to the estimate—Budget or Revised—for the year (but see paras 15 and 16), of the strength or weakness of the market, crop and trade conditions, and so on

8 The amount is also decided up to which applications for Intermediate Bills or Transfers will be accepted up to the following Wednesday, at prices higher by $\frac{1}{32}d$ per rupee for Bills and Transfers than those at which allotments have just been made (see, however, para 27)

* At first (January 1862) a farthing, reduced to $\frac{1}{8}$th in March 1862, to $\frac{1}{16}$th in January 1875, and to $\frac{1}{32}$nd in 1882

† See note to paragraph 26

9 When, as frequently happens, those allotments have been made at more than one price for Bills and for Telegraphic Transfers respectively, the prices fixed for "Intermediates" may be $\frac{1}{32}d$ above the higher ones, or above the lower ones, at which those allotments have been made, but they must be $\frac{1}{32}d$ higher than the lowest prices at which allotments have been made

10 The allotments made each Wednesday, the amount announced to be tendered for on the following Wednesday, and the arrangements made for the sale of "Intermediates," are laid before the next meeting of the Finance Committee (usually on the same day), and subsequently before the Council of the Secretary of State, for approval, together with particulars of the amount sold since the beginning of the financial year, the amount remaining to be sold so as to work up to the estimate of the financial year, and any other information having an important bearing upon future sales

11 Since 1905 Telegraphic Transfers on India have sometimes been issued in payment for sovereigns which the Secretary of State has purchased in transit from Australia or from Egypt to India This practice has been resorted to as a means of checking an excessive accumulation of sovereigns in the Paper Currency Reserve in India and obviating the expense entailed in relieving the accumulation by shipping them to London (cf para 23 of the Note on the Paper Currency Reserve, page 242

Table No. 1 (page 227) gives the amounts of drawings and the average rate of exchange at which they were effected for each year from 1862–3 to the present time The published regulations governing the sale of Bills and Transfers and the conditions under which sovereigns are sometimes purchased in transit to India against Telegraphic Transfers will be found printed in their present form as Appendix A (pages 228–9)

12 The method of transferring funds from the treasuries of the Government of India to that of the Secretary of State on a large scale by the sale of Council drafts on India is rendered possible by the fact that India has ordinarily a very large trade balance in her favour Except in years of very deficient crops and unfavourable trade this balance is so large as to be only partly met by the remittances which banks and commercial houses are enabled to make to India by purchasing the Secretary of State's drafts, a considerable portion of the world's debt to India remains to be discharged by other means Before the closing of the Indian Mints to the free coinage of silver in 1893 this supplemental remittance was effected by shipments of silver to India to be coined into rupees, since the closing of the Mints it has taken the form of shipments of sovereigns which are received at the Indian Mints and Treasuries in exchange for rupees at the rate of 15 rupees to 1*l*

13 So long as the amount which the Secretary of State requires to draw from India by means of his Council drafts is well within the amount owing to India in settlement of the balance of trade in her favour, and so long as the Secretary of State sells his drafts at rates at which they are not a more expensive mode of remittance (see paragraph 20 below) than shipments of sovereigns to India, he can have no difficulty in drawing the funds he requires and maintaining exchange at the rate of 1*s* 4*d* to the rupee These conditions have been fulfilled from 1899 down to the present time with the exception of the period covered by the closing months of 1907 and a part of 1908 The crisis was made unusually severe by the effects of a very deficient monsoon in 1907, followed by an extraordinarily acute depression of trade over the whole world, towards the end of the same year

14 The present system of regulating the amount of the drawings of each year, which has been in force for many years, is as follows —The Government of India, in preparing their Budget for a coming year, frame their estimate of the amount which, after meeting [illegible] ther anticipated demands upon their treasury balances an[illegible] the retention of sufficient balances at the close of the year, they anticipate that they will be able to remit to the Secretary of State during the year through the medium of his sales of Council Bills, towards defraying the expenditure

* See appended Table IV, pages 231–6

of the India Office on revenue and capital account In this estimate account is necessarily taken of the amount which can advantageously be raised by borrowing in India towards providing for capital expenditure (It may be remarked, incidentally, that whereas until recently the sterling loans of the Secretary of State could be issued in London more cheaply than the Rupee loans of the Government of India in that country, of late years the tendency has been in the opposite direction Thus, in 1912 the 3½ per cent loan of the Government of India for 3 crores of rupees was issued at an average price of 96⅛, whereas the India sterling loan for 3,000,000*l*, underwritten, was issued at 93)

15 The Budget estimate of drawings for the year having been arrived at as described in the last paragraph, their actual distribution over the twelve months is regulated as follows —The Indian year, as is well known is divided broadly into two seasons, the busy season, extending roughly from the 1st October to the end of March, and the dull season extending from about the beginning of April to about the end of September Thus the financial year begins with the dull season, during which the demand for the Secretary of State's Bills as a means of remittance of funds by the public from London to India is less strong than during the autumn and winter The difference between the two seasons in this respect is illustrated by the attached Table No III (page 233)

16 In a year of favourable seasons and great trade activity it might be possible (if those favourable conditions could be foreseen) for the Secretary of State to restrict his drawings during the first half of the financial year *i e*, the dull season, to an almost insignificant amount, and to meet almost the whole of his requirements during the second half, *i e*, the busy season, when he might sell his drafts at a higher rate than they would command in the dull season But in carrying out this apparently profitable policy he is limited by the following considerations —(1) he requires funds of considerable amount to meet current outgoings during the first as well as the second half of the financial year, (2) the funds which he draws from India in the early part of the financial year, if not immediately required, earn interest in this country, whereas in India no profitable use would be found for them under other than exceptional conditions, so that the profit derived from lending out these funds, though sometimes at a low rate of interest, must be counted as a set off to the somewhat higher rate of exchange at which they can be remitted home in the later months of the financial year as compared with the earlier ones, (3) a good market for Council Bills in the winter months cannot be counted upon until the monsoon has declared itself, the experience of 1907–8 (see Table III, page 233) illustrates this, and (4) the market is full of surprises, one must always be prepared for the unexpected This is illustrated by a comparison of the years 1911–12 and 1912–13 In both years the monsoon was good, in 1912–13 if anything more satisfactory than in 1911–12, and giving prospect of at least as active a winter business as that of 1911–12 But after a short spell of very keen bidding for the Secretary of State's drafts in December 1912 the demand fell off in a remarkable manner, as indicated by Table V, page 237, and chart attached thereto (5) If the drawings for the year exceed the estimate, the excess proceeds can be used for the reduction or avoidance of debt, either in the year in which they are received or in the next year (*see* para 19)

17 It is possible, after the event, to attribute a reduced demand such as occurred in 1912–13 to a combination of causes, such as reduced exports of opium, smaller demand for rice from China, deficient rains in the north of India in January–February, the near eastern situation, stringency in the London Money Market, and so on, but the cumulative effects of these causes could not be gauged at the beginning of December 1912, still less could they be foreseen at the earlier date when, after a good monsoon was assured, the prospect of an active winter business seemed tolerably certain The inference to be drawn from cases of this kind seems to be that in the regulation of the sales of the Secretary of State's drafts the safe course is to take advantage of a moderately good demand for remittance, when it shows itself, during the first half of the financial year, or dull season, rather than to rely too much on selling the great bulk of the

drafts of the year at a higher rate of exchange during the last few months of it

18 Some of the critics of the India Office seem to think that the Secretary of State should limit his drawings in two ways, viz, (1) he should not draw more than the amount that he has budgeted for in any year, and (2) he should not sell his drafts materially below gold point, meaning the rate of exchange at which sovereigns are liable to be taken from the Bank of England for shipment to India in competition with his drafts The rate of exchange at which this is liable to happen is assumed to be 1*s* $4\frac{5}{32}d$ per rupee for Telegraphic Transfers and 1*s* $4\frac{1}{8}d$ for Council Bills

19 Both these propositions are open to objections The first takes no account of the cases where, owing to a good monsoon and general prosperity, the Government of India find themselves in a position towards the end of a financial year to remit home funds far in excess of what they could expect to remit when the estimates of the year were framed Such excess funds are properly applicable to the reduction of the amount which the Secretary of State would be otherwise obliged to borrow to meet capital expenditure In the interval before being so used their possession by the Secretary of State secures him *pro tanto* against the consequences of a possible fall in exchange

20 The second proposition is open to the objection that sovereigns flow into India freely at certain seasons and under certain conditions from Australia and from Egypt when the rates of exchange which the Secretary of State's Bills and Transfers will command are materially below those regarded as "gold point" This may be seen from Table VI (page 238) which shows that during the five months May to September 1912 there was a net import of £7,662,535 in sovereigns into India, while the Secretary of State's drafts were sold almost entirely at rates of 1*s* $4\frac{1}{32}d$ and 1*s* $4\frac{1}{16}d$ for Bills and Transfers respectively There is excellent authority for saying that sovereigns are sometimes shipped from Australia and from Egypt to India at a price which represents only the equivalent of Secretary of State's Bills at slightly less than 1*s* $4\frac{1}{32}d$ Experience indeed shows that even from London sovereigns are liable to be shipped to India in competition with Council Bills at 1*s* $4\frac{1}{32}d$, if not lower

Thus if the Secretary of State were to hold out for prices of 1*s* $4\frac{1}{8}d$ and 1*s* $4\frac{5}{32}d$ for his Bills and Transfers respectively he would even in a very busy season run the risk of losing his market for remittance, he would cause the Paper Currency Reserve in India to become overloaded with sovereigns, and then, whether for the purpose of relieving its repletion or of meeting his own Treasury requirements, he would be obliged to bring sovereigns home from India at the cost of freight, insurance, &c It is clearly more advantageous to draw the funds which he requires to draw from India, and to avoid excessive accumulations of sovereigns there, by selling his drafts at a slightly lower rate, though it is right that the rate should be pitched as high as is consistent with the attainment of those two objects

21 Sometimes, especially in seasons of active trade, the demand for the Secretary of State's drafts on India far exceeds the amount that he can draw from the treasuries of the Government of India without reducing their balances below a safe limit The question then arises whether he should restrict his drafts to the amount that can conveniently be drawn from the Treasury balances in India, and allow the balance of the trade demand to satisfy itself by shipments of sovereigns to India, or whether by the use of other resources to be referred to below (see paragraph 22), he should continue to sell drafts beyond his actual immediate needs to meet the requirements of trade The inconvenience of causing sovereigns to accumulate beyond a certain point in the Paper Currency Reserve in India has already been referred to The injurious effects on Indian trade of a cessation of the Secretary of State's sales of Bills and Telegraphic Transfers may be explained as follows —The situation contemplated is naturally most likely to arise towards the close of the financial year, *i e*, in January, February or early in March At that season the demand for remittance to India is usually strongest It may become acute very suddenly The Secretary of State's Telegraphic Transfers afford the means, which no other mode of remittance does,

of relieving in a very short space of time a money stringency which otherwise might become serious, even disastrous to Indian trade Thus (Command Paper 6619 of 1913, page 4) in 16 days in January–February 1912, Telegraphic Transfers on India were sold for over £3,500,000, enabling that sum ($5\frac{1}{4}$ crores of rupees) to be liberated from Government treasuries and passed into the hands of the public But had the shipment of sovereigns from London been the only method of remittance available, not a single sovereign's worth of rupees could have been released in India by that method during the same period, and consignments from Egypt and Australia were, at the time, very small

22 This question of the propriety of selling Council drafts for the convenience of trade and apart from the actual immediate requirements for India Office disbursements, engaged attention so long ago as the end of 1897 To get over the inability of the Government of India to meet from their Treasury balances drafts on India of sufficient amount to satisfy the trade demand and relieve the stringency of the Indian money markets (the Calcutta and Bombay Bank rates being at the time 11 and 12 per cent respectively) an Act of the Indian Legislature was passed (Act II of 1898) authorising the issue in India of Paper Currency notes against gold held by the Secretary of State in Council as part of the Paper Currency Reserve in London At the same time the Secretary of State issued a notice (21st January 1898) that he was prepared to sell until further notice Telegraphic Transfers on India at a price not exceeding 1*s* $4\frac{5}{32}$*d* per rupee From the point of view of the public the effect of this was to enable banks and merchants in India to obtain rupees from the hands of Government at a price about equivalent (during the prevalence of the rates of interest mentioned) to that at which (allowing for interest on money besides shipping and insurance charges) they would have been able to obtain them in exchange for sovereigns shipped from London, but while this mode of remittance was not at the time appreciably cheaper, if at all, than that of shipping sovereigns, (and would now be dearer at any time when the rate of interest in India is 8 per cent or less) it had the advantage, of the very greatest importance at a time of extreme monetary stringency, of being much the more expeditious

23 From the point of view of Government the effect of the transaction was, that the Secretary of State by depositing in gold at the Bank in England a given sum from the proceeds of his sales of Telegraphic Transfers as part of the Paper Currency Reserve enabled the Government of India to issue notes of corresponding amount against such gold, wherewith to meet the Telegraphic Transfers drawn against them

24 The convenience to trade interests resulting from this arrangement was very great, and when in January 1900 the Secretary of State felt obliged, owing to apprehensions of a dangerous reduction of the quantity of rupees held by the Government of India (Financial Despatch to India, No 29 of 1900)†, to withdraw the notice of 21st January 1898 (sale of Telegraphic Transfers at 1*s* $4\frac{5}{32}$*d* until further notice) the announcement was received with consternation in commercial and banking circles in India The Associated Exchange Banks, Bombay, telegraphed to the Government of India (16th January 1900)† that "acute financial stringency prevails, caused by sudden
" withdrawal without previous notice of facility granted 21st January 1898
" Banks respectfully protest against the sudden withdrawal and beg immediate
" steps be taken to relieve critical situation and avert panic " Protests were also received from the Bombay and Bengal Chambers of Commerce, with applications for temporary loans to the Presidency banks, but these the Government of India were unable to grant

25 Although the Secretary of State withdrew his offer to sell Telegraphic Transfers at 1*s* $4\frac{5}{32}$*d*, he continued to sell at higher prices, indeed as high as 1*s* $4\frac{3}{8}$*d* To this action the Government of India objected, they desired

* The duration of this Act was only six months Its provisions were extended for a further period of two years by Act VIII of 1898, and for a further two years by Act VIII of 1900, which also gave the Secretary of State power to expend the gold held by him as part of the Paper Currency Reserve in the purchase of silver for coinage The provisions of this Act were made permanent by Act IX of 1902

† Not printed

"to see exchange remain steady *within* the gold point," and added that "this has universally been understood to be the settled intention of Government" The demand for remittance to India satisfied itself for the time being, though at the cost of severe monetary stringency in the Indian markets, and the evils attendant thereon, by imports of gold into India, and the question of again selling drafts on India without limit at a maximum price did not recur until January 1904, when exchange again reached "gold point"

26 The Secretary of State then notified his readiness to sell "intermediate" Bills until further notice at a rate not exceeding 1*s* $4\frac{1}{8}d$ per rupee, and as the price of Telegraphic Transfers was at that time fixed at $\frac{1}{16}$th of a penny above that of Bills, the price at which applications for Telegraphic Transfers were accepted without limit became 1*s* $4\frac{3}{16}d$ instead of 1*s* $4\frac{5}{32}d$, the rate announced in 1898

27 The practice since 1904 has been as follows —(1) invariably to sell Bills without limit when the price is as high as 1*s* $4\frac{1}{8}d$, (2) to sell Transfers without limit at 1*s* $4\frac{5}{32}d$ if the Indian bank rates do not exceed a certain rate (6 per cent prior to January 1906, 8 per cent subsequently (see footnote), and at 1*s* $4\frac{3}{16}d$ if they exceed that rate These rates (see para 20 above) are by no means prohibitive to the export of sovereigns from London to India, still less to their export thither from Australia or Egypt On the contrary they are so high as almost to place the Secretary of State's drafts out of competition with the remittance of sovereigns, except at times of great monetary stringency in India, when rapid transmission of funds to that quarter is the consideration of supreme importance The question whether by restricting sales of Council drafts to allow exchange to reach so-called "gold point," or to sell freely, a course which by no means prevents the concurrent importation of sovereigns into India, is one which must be decided month by month and week by week, according to the trade demand for telegraphic transfers and the urgency of the need for drawing funds from the treasuries of the Government of India to that of the Secretary of State

28 The governing considerations, stated in order of importance, seem to be the following —

(1) To draw from the treasuries of the Government of India during the financial year the amount that has been laid down in the Budget as necessary to carry out the Ways and Means programme of the year

(2) To draw, if practicable, such further amount as may be required to pay for any purchases of silver that may be made for coinage during the year, not having been provided for in the Budget (Such purchases may in the alternative be paid for from gold held in the currency reserve in London, as provided for by India Act VIII of 1900, when the amount of gold so held is sufficient, but if the market for the Secretary of State's Bills is strong enough to enable him to pay for his purchases of silver by additional sales of Bills, there is an advantage in doing so and keeping the reserve of gold intact, to support exchange in a crisis like that of 1907–08, see paragraph 13)

(3) To draw such further amount from the treasury balances of the Government of India as an unexpectedly prosperous season may enable them to spare, to be used towards the reduction or avoidance of debt, and as the state of the market for the Secretary of State's drafts may allow to be drawn at a reasonably high rate of exchange

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* The difference is calculated to represent the approximate cost of interest on a rupee in India for the period intervening between the date when a Telegraphic Transfer is payable there, and that when a Bill issued on the same date is payable At the date in question (1904) it was the practice to make a difference of $\frac{1}{32}d$ between the prices of Bills and Transfers when the Indian bank rates did not exceed 6 per cent, and a difference of $\frac{1}{16}d$ when the bank rates were higher In 1906, in view of the reduction which had taken place in the time occupied by the mails from this country in reaching India and in the freight on gold, it became the practice only to make a difference of $\frac{1}{16}d$ between the prices of Bills and Transfers when the Indian bank rates reached 9 per cent

(4) To allow a sufficient amount of sovereigns to flow into India to supply the demands of the public

(5) To sell bills and transfers, if necessary, beyond the amount required under (1), (2), and (3), to meet the convenience of trade, *i e*, to avert an injurious stringency of money in the markets of India

29 The relative importance of considerations Nos 4 and 5 must be largely dependent on the conditions existing at any given time When the stock of gold held in the Paper Currency Reserve in India, which the Government are prepared to release freely in exchange for notes or silver, is very large, the need for restricting sales of Council drafts so far as to allow of a considerable influx of gold into the country is clearly less important than when the stock so held is low Similarly the question whether to pay for purchases of silver from the proceeds of sales of bills, sold for the purpose, or from gold in the Paper Currency Reserve, must depend, to some extent, on the quantity so held

30 The importance of selling drafts to meet the convenience of trade has been referred to above (paragraph 21) and the consternation caused in commercial circles by the Secretary of State's withdrawal in January 1900 of his offer to sell Telegraphic Transfers at a price not exceeding 1*s* $4\frac{5}{32}$*d* has been described (paragraph 24) The practice is sometimes misrepresented as being adopted in the interests of the City of London, not those of India But the events of 1900 afford an answer to this charge Further, the practice is referred to regularly in the Financial Statements of the Government of India as part of the settled financial policy of Government (see Command Paper, No 6,619, 1913, IV) and meets with little or no criticism in the Legislative Council There is abundant evidence that its advantages are appreciated by the great majority of the business community in India, and questioned only by a few

Its advantages may be summed up as follows —

(1) It serves to avert or relieve extreme stringency in the money markets of India, which would be detrimental to the commercial prosperity of the country

(2) It serves to check excessive accumulations of gold in the Paper Currency Reserve in India which might otherwise have to be lightened by expensive methods (see above, paragraph 20)

(3) It serves, sometimes, to avert extreme stringency in the London Money Market which would be created if the Secretary of State, by refusing to sell drafts for the convenience of trade, forced large quantities of sovereigns to be taken from London for India This consideration may not be valued by some of the critics of the policy of selling drafts freely, because their attitude implies an underlying assumption that what is beneficial to the interests of London cannot be good for India, but those who approach the question with an open mind will probably recognise that any serious disturbance to the greatest money market of the world cannot but be injurious to the trade of India, and to her interests as a frequent borrower in the London market, so that free sales of Council drafts for the purpose of averting such a disturbance may, at times, be fully justified, and indeed urgently required, in the interests of India

31 It has been shown above (paragraph 22) how the Indian Paper Currency Act, by empowering the Secretary of State to hold a portion of the Indian Paper Currency Reserve in the shape of gold in London, enables him to meet a demand for Council drafts on India at times when it might not be convenient or possible for the Government of India to meet them from its treasuries This power introduces a valuable element of elasticity into the Indian currency system It would not, of course, be desirable that more than a moderate portion of the total metallic reserve should be held in London, in gold, but, subject to that proviso, the system is useful in connection, not only with the sale of Council drafts, but also with the purchase of silver and as a support of exchange The latter advantage arises in this way At a time when the state of exchange, as in the crisis of

36 The worst effect of the decline in exchange was felt in the increased amount which had to be drawn from the revenues of India to meet the Home charges Thus, in the year 1895–6, the sum realised by the sale of Council drafts was 17,664,492*l*, representing Rs 31,08,54,373, at an average rate of 1*s* 1 638*d* per rupee Had the same sterling sum been remitted at the average rate obtaining in 1872–3, the sum in rupees representing the remittance would have been Rs 18,63,17,925 instead of Rs 31,08,54,373, a difference of Rs 12,45,36,448 Moreover the Government of India was confronted with the prospect of a still further fall in exchange and a further increase in the burden of the Home charges

Other burdens imposed upon the revenues of India by the fall in exchange were (1) the cost of granting exchange compensation allowance, (2) enhanced charge for the pay of British troops in India, consequent on the fall in exchange, (3) the concession of "privileged" rates of exchange for the conversion of (*a*) pensions expressed in rupees, when paid in countries where the rupee is not legal tender (1*s* 9*d*) and (*b*) furlough allowances to civil officers taking leave to Europe (at 1*s* 6*d* per rupee)

The additional charge under heads (1) and (2) was a very uncertain amount, varying according to the rate of exchange, in 1893–94 these items were estimated at 63 and 83 lakhs of rupees respectively, the cost of concessions 3 (*a*) and 3 (*b*) was also variable, the former costing about 14,000*l* in the year in which it was imposed (1890–1), and the latter (1893–4) about 27,000*l*

37 Indirectly also the fall in exchange has imposed further burdens on the exchequer by contributing to an extent which it would be impossible to calculate in conjunction with other causes such as the increased cost of living in India, to force upon Government the necessity of increasing salaries of various appointments and branches of the Service

To meet these burdens additional taxation had to be imposed in the period 1885–1895, estimated to yield in the aggregate about 530 lakhs of revenue (equivalent at the *present* rate of exchange to about 3,533,000*l*), as follows —

1886–87, an Income Tax, estimated to yield 102 lakhs of rupees per annum

1888–89, increased salt duties, estimated to yield 172½ lakhs of rupees per annum

1888–89, import duty on petroleum and minor measures affecting Burma, 20 lakhs of rupees per annum

1894–95, enhanced and widened Customs duties, 135 lakhs of rupees per annum

1895–96, cotton import and Excise duties, 145½ lakhs of rupees per annum

A total estimated increase of revenue by 575 lakhs of rupees, against which, however, has to be set off a net reduction in cotton duties estimated at about 45 lakhs, effected in January 1896

38 The steps by which exchange was fixed at a stable rate of 1*s* 4*d* per rupee had the effect of placing a limit to burdens on the exchequer which otherwise seemed to possess indefinite and incalculable possibilities of expansion

39 Since exchange was placed on its present basis one of the most serious uncertainties in Indian budgeting has been removed In only three years out of 14, since 1898–9, has the Secretary of State been unable to realise by the sale of Bills the amount for which he budgeted (*see* Table II, page 232)

40 There is abundant expert testimony to the effect that Indian trade generally has benefited by stability of exchange Exports do not appear (*see* Table IV, pages 234–6) to have been injuriously affected, as some critics of the

* As a matter of fact the price of silver has fallen in the interval since the introduction of the present currency system as low as 21$\frac{11}{16}$*d* per oz, a price at which the out-turn cost of a rupee was a little over 8*d*, while at the highest price of silver reached in the same period, 33⅛*d* per oz the cost of the rupee would be less than 1*s* 1*d*

present currency policy predicted that they would be, by the establishment of a rate of exchange much above the intrinsic silver value of the rupee Revenue has shown a steady expansion, enabling successive reductions of taxation to be effected, viz —

			£
(1)	18 March 1903	Reduction of salt tax, estimated sacrifice of revenue	1,095,000
(2)	1903–4	Exemption from Income Tax of private incomes below Rs 1,000 per annum	240,000
(3)	1905	Reduction of salt tax	1,220,000
(4)	1905	Abolition of famine cesses postal reductions	200,000
(5)	1906	Abolition of certain land cesses	548,000
(6)	1907	Reduction of salt tax	1,267,000
(7)	1907	Postal concessions	146 000
		Total	£4,716,000

41 The one addition to taxation to be set against these repeated remissions of imposts made since the introduction of the present currency system, is the enhancement of certain customs, excise and stamp duties effected in 1910

42 This was estimated to yield additional revenue amounting to 1,126,000*l* and was resorted to in view of the approaching reduction and gradual extinction of the opium revenue

43 The net results are that, in the period dating from the full introduction of the present currency system (1899), there has been a net reduction of taxation estimated at about 3½ millions sterling, coincident with a loss of revenue from opium amounting to nearly 2,000,000*l* *, and the Government of India are able, on the basis of this reduction of revenue, to budget for a surplus of 1,326,300*l* in 1913–4

* Difference in rupees between net revenue 1898–9, and Budget estimate, 1913–4, converted at 1*s* 4*d* per rupee as follows —

	£
1898–9	2,230,308
Budget 1913–4	309,600
	£1,920,708

The loss of revenue is much greater in comparison with the figures of more recent years, *e g*, in comparison with the net revenue of 1910–11 it is nearly 6 000,000*l*

Table I.

COUNCIL BILLS AND TELEGRAPHIC TRANSFERS

AMOUNTS DRAWN ON INDIA DURING THE PERIOD FROM 1862–63 TO 1912–13, WITH THE AVERAGE RATE OF EXCHANGE

Year	Amount	Average rate	Year	Amount	Average rate
	£	s d		£	s d
1862–3	6,641,576	1 $11\frac{7}{8}$	1888–9	14,262,859	1 4 379
1863–4	8,979,521	1 $11\frac{7}{8}$	1889–90	15,474,496	1 4 566
1864–5	6,789,473	1 $11\frac{7}{8}$	1890–1	15,969,034	1 6 089
1865–6	6,966,116	1 $11\frac{1}{4}$	1891–2	16,093,854	1 4 733
1866–7	5,067,589	1 11	1892–3	16,532,215	1 2 985
1867–8	4,137,285	1 $11\frac{1}{8}$	1893–4	9,530,235	1 2 547
1868–9	3,705,741	1 $11\frac{1}{8}$	1894–5	16,905,102	1 1 100
1869–70	6,980,122	1 $11\frac{1}{4}$	1895–6	17,664,492	1 1 635
1870–1	8,443,509	1 $10\frac{3}{8}$	1896–7	15,526,547	1 2 450
1871–2	10,310,339	1 $11\frac{1}{8}$	1897–8	9,506,077	1 3 406
1872–3	13,939,095	1 10 754	1898–9	18,692,377	1 3 978
1873–4	13,285,678	1 10 351	1899–1900	19,067,022	1 4 068
1874–5	10,841,615	1 10 156	1900–1	13,300,277	1 3 973
1875–6	12,389,613	1 9 626	1901–2	18,539,071	1 3 988
1876–7	12,695,800	1 8 508	1902–3	18,499,946	1 4 002
1877–8	10,134,455	1 8 791	1903–4	23,859,303	1 4 049
1878–9	13,948,565	1 7 794	1904–5	24,425,558	1 4 045
1879–80	15,261,810	1 7 961	1905–6	32,166,973	1 4 012
1880–1	15,239,677	1 7 956	1906–7	33,157,196	1 4 083
1881–2	18,412,429	1 7 895	1907–8	16,232,062	1 4 029
1882–3	15,120,521	1 7 525	1908–9	13,915,426	1 3 931
1883–4	17,599,805	1 7 536	1909–10	27,096,586	1 4 011
1884–5	13,758,909	1 7 308	1910–11	26,783,303	1 4 060
1885–6	10,292,692	1 6 254	1911–12	27,058,550	1 4 083
1886–7	12,136,279	1 5 441	1912–13	25,759,706	1 4 058
1887–8	15,358,577	1 4 898			

Appendix A

I

SALE OF BILLS AND TELEGRAPHIC TRANSFERS ON INDIA

In supersession of previous notifications, the Secretary of State for India in Council publishes the following particulars as to the method of selling Bills and Telegraphic Transfers on India —

Sale of Bills

1 The Secretary of State for India in Council is prepared to allot on Wednesday in each week Bills of Exchange on the Government of India, the Government of Madras, or the Government of Bombay, of an aggregate amount not exceeding that announced in a notice which will be previously exhibited at the Bank of England

2 Tenders for such Bills will be opened at the Bank of England on each Wednesday at 1 o'clock

3 Tenders must be made on forms which can be obtained on application at the Chief Cashier's Office at the Bank of England They must be delivered, under cover, at the said office

4 Any tender may be for the whole amount shown in the announcement or for any portion thereof not being less than Rs 10,000 The amount of the tender or tenders submitted by or on behalf of any one person, firm, or company must not in the aggregate exceed the amount shown in the announcement Tenders which appear to the Secretary of State in Council to be submitted in direct or indirect infringement of this rule will be rejected

5 Each tender must state the rate of exchange at which the applicant is prepared to purchase a Bill or Bills of the amount for which he tenders or any less amount that may be allotted to him The rate of exchange must be expressed in pence or in pence and a fraction of a penny per rupee, any fraction that is used must be either one thirty-second of a penny or a multiple of one thirty-second of a penny

6 In the event of two or more tenders being made at the same rate, and the amount to be allotted being less than the amount of both or all, a *pro rata* allotment will ordinarily be made, subject to the condition that no Bill will be granted for a less amount than Rs 5,000

7 As soon as practicable after the opening of the tenders the result will be made known at the Bank, and the *maximum* amount to be allotted on the following Wednesday will ordinarily be announced at the same time

8 On Wednesday afternoon persons who have tendered will, on application at the Chief Cashier's Office, be informed whether any allotment has been made to them

9 Payment for Bills allotted on a Wednesday must be made on or before the following Tuesday

10 Those applicants to whom an allotment of Bills has been made will be furnished with a form to be filled up with the particulars of the Bills desired, which must be left at the Chief Cashier's Office before 12 o'clock on the day preceding that on which the Bills are required, the Bills will be delivered next day on payment in cash not later than 2 o'clock

11 In addition to the tenders mentioned above for Bills to be allotted on Wednesdays at 1 o'clock, applications may be made on any Wednesday after

the result of the allotment has been announced (but not later than 3 o'clock), on Saturday between 11 and 12.30, and on any other day between 11 and 3, at the Chief Cashier's Office of the Bank of England for intermediate Bills drawn on the Government of India, the Government of Madras, or the Government of Bombay. No pledge can be given that such applications will be complied with; but, if intermediate Bills are granted, the following condition will be observed, viz., that if, at the preceding allotment, Bills have been allotted to the full amount previously announced, intermediate Bills will only be granted at rates exceeding by at least one thirty-second of a penny per rupee the minimum price at which an allotment was made. If, however, the minimum price has exceeded 1s. $4\frac{3}{32}d.$ the rupee this condition will not be enforced, as the Secretary of State in Council is prepared to sell until further notice intermediate Bills at 1s. $4\frac{1}{8}d.$ the rupee.

12. If an intermediate Bill is granted on a Tuesday, payment must be made on the same day; if a Bill is granted on any day other than Tuesday, payment must be made not later than the following Tuesday.

Sale of Telegraphic Transfers.

13. Applications for Telegraphic Transfers on the Government of India, the Government of Madras, and the Government of Bombay, will be received on behalf of the Secretary of State for India in Council at the Chief Cashier's Office at any time between 11 and 3, except on Saturdays, when the hours are from 11 to 12.30. Those which are received on Wednesday before 1 o'clock will be opened at the same time as the tenders for the weekly allotment of Bills; and, if transfers are then granted, the fact will be announced at the same time and in the same manner as the allotment of Bills. Transfers will be granted only in thousands of rupees, and in no case for less than one lakh, except that an applicant to whom a transfer has been granted at the time of the weekly allotment of bills may be allowed an additional transfer of an amount (in thousands of rupees) less than one lakh, provided that such additional transfer is paid for (at the price fixed for the time being by the Secretary of State in Council) on the same day as the transfer originally granted. Applicants tendering on Wednesday before 1 o'clock both for bills and transfers, may, if they wish it, insert in their tender for transfers a request that, if that tender be not sufficiently large to secure an allotment of one lakh of rupees, it may be increased to the necessary extent by reduction of their tender for Bills.

14. If a transfer is granted on a Tuesday, payment must be made on the same day; if a transfer is granted on any day other than a Tuesday, payment must be made not later than the following Tuesday.

15. The necessary telegram to enable the amount of a transfer to be issued to the recipient in India will be despatched on the day on which payment for the transfer is made at the Bank of England.

General.

16. The sales of Bills and Telegraphic Transfers, and the rates at which they have been made, will be from time to time announced at the Bank of England, and the total amount sold up to date since the 1st of April, with the sterling realised, will be similarly announced on each Wednesday morning at 11 o'clock.

17. The Secretary of State in Council, while making the foregoing announcement as regards the practice to be ordinarily pursued, reserves to himself the right of rejecting the whole or any part of any tender and of departing in any respect without previous notice from the terms of this announcement, should circumstances render it expedient.

India Office,
25th August 1909.

II

Conditions on which the Secretary of State for India in Council is willing until further notice to purchase Sovereigns in Transit from Australia or Egypt by granting Telegraphic Transfers on Calcutta, Madras, and Bombay

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1 A list is kept at the India Office of banks and firms from whom the Secretary of State is prepared until further notice to purchase sovereigns under these rules for delivery in London

2 Purchases will not be made from institutions whose head offices are not in the British Empire unless the offer of sale is accompanied by the guarantee of an approved English bank

3 The sovereigns are to be consigned to the Secretary of State for India in Council, London, and the bills of lading made out in his favour, or, if the sovereigns are not so consigned, the bills of lading are to be endorsed in his favour In every case the bills of lading must be posted to the Under Secretary of State, India Office, and a letter addressed to him by the seller in the form annexed

4 Sovereigns consigned to the Secretary of State from Egypt must be shipped in a vessel of a regular line approved by the India Office

5 The date of issue of the telegraphic transfers and the rate of exchange are subject to the following conditions —

A —In the case of Gold consigned from Australia

At the option of the institution tendering the sovereigns, transfers will be granted either—

(1) Ten days after the departure from Fremantle of the vessel in which the sovereigns are shipped, at the rate of 1*s* 4*d* the rupee, or

(2) On the day following the departure of the vessel from Fremantle, at the rate of 1*s* $4\frac{1}{32}$*d* the rupee

B —In the case of Gold consigned from Egypt

At the option of the institution tendering the sovereigns, transfers will be granted either—

(1) On the advertised date of arrival at Bombay of the next Peninsular and Oriental vessel leaving Port Said after the date of shipment of the sovereigns to London, at 1*s* 4*d* the rupee, or

(2) On the date of shipment from Egypt to London, at 1*s* $4\frac{1}{32}$*d* per rupee

August 1910

[*Form of Application opposite*]

To the Under Secretary of State,
India Office, S W.

Sir,

With reference to the attached statement of the conditions under which the Secretary of State for India in Council is willing to purchase for delivery in London sovereigns in transit from Australia or Egypt by issuing telegraphic transfers to an equivalent amount we have to inform you that £____________________ in sovereigns has been shipped by us from [*Port of Shipment*]____________________ by the S S __________ which $\frac{\text{leaves}}{\text{left}}$ $\frac{\text{Fremantle}}{\text{Port Said}}$ on [*date*]__________

The Bills of Lading have been $\frac{\text{made out}}{\text{endorsed}}$ in favour of the Secretary of State for India in Council, and have been posted to the Under Secretary of State, India Office, London

We have to request that, in payment for these sovereigns, telegraphic transfers to the amounts specified below may be granted on the ____________________ 191 , in favour of [*Name*]____________________ viz —

	Rs	Rate	Amount in Sterling
			£
On Calcutta - -			
On Madras - - -			
On Bombay - -			
Total - -			

We hold the Secretary of State in Council covered by the insurance policies noted below which are open to your inspection

We are, Sir,
Yours faithfully,

PARTICULARS OF INSURANCE POLICIES

Table II.

COUNCIL BILLS AND TELEGRAPHIC TRANSFERS

COMPARISON OF BUDGET ESTIMATES WITH ACTUAL DRAWINGS, 1872-3 TO 1898-9, AND 1899-1900 TO 1912-13, AND AVERAGE RATES OF EXCHANGE AT WHICH DRAWINGS WERE MADE

Year	Budget Estimate	Actual Amount	Comparison with Budget (+) Excess (−) *Shortage*	Average Rate	Remarks
	£	£	£	s d	
1872-73	13,000,000	13,939,095	+939,095	1 10 754	
1873-74	13,500,000	13,288,678	*−211,322*	1 10 351	
1874-75	10,000,000	10,841,615	+841,615	1 10 156	
1875-76	14,300,000	12,389,613	*−1,910,387*	1 9 626	
1876-77	13,660,000	12,698,800	*−961,200*	1 8 508	
1877-78	12,250,000	10,134,455	*−2,115,545**	1 8 791	*Famine in India
1878-79	17,000,000	13,948,565	*−3,051,435**	1 7 794	
1879-80	15,000,000	15,261,810	+261,810	1 7 961	
1880-81	16,900,000	15,239,677	*−1,660,323*	1 7 956	
1881-82	17,200,000	18,412,429	+1,212,429	1 7 895	†Reduction mainly due to unexpected receipt of 1,704,000*l* on account of capital of Southern Mahratta Railway
1882-83	15,342,000	15,120,521	*−221,479*	1 7 525	
1883-84	16,300,000	17,599,805	+1,299,805	1 7 536	
1884-85	16,500,000	13,788,909	*−2,711,091†*	1 7 308	
1885-86	13,773,700	10,592,692	*−3,181,008‡*	1 6 254	
1886-87	13,331,400	12,136,279	*−1,195,121§*	1 5 441	‡Suspension of coinage of Bland dollar recommended by President United States of America
1887-88	16,250,000	15,358,577	*−891,423§*	1 4 898	
1888-89	14,000,000	14,262,859	+262,859	1 4 379	
1889-90	14,689,900	15,474,496	+784,596	1 4 566	
1890-91	14,989,000	15,969,034	+980,034	1 6 089	
1891-92	16,000,000	16,093,854	+93,854	1 4 733	§Great depression in trade
1892-93	17,000,000	16,532,215	*−467,785*	1 2 985	
1893-94	18,700,000	9,530,235	*−9,169,765‖*	1 2 547	‖Indian Mints closed to free coinage Repeal of purchasing clauses of Sherman Act United States of America
1894-95	17,000,000	16,905,102	*−94,898*	1 1 100	
1895-96	17,000,000	17,664,492	+664,492	1 1 638	
1896-97	16,500,000	15,526,547	*−973,453*	1 2 450	
1897-98	13,000,000	9,506,077	*−3,493,923¶*	1 3 406	
1898-99	16,000,000	18,692,377	+2,692,377	1 3 978	¶Famine in India
1899-1900	17,000,000	19,067,022	+2,067,022	1 4 068	**Severe failure of crops in 1899
1900-01	16,440,000	13,300,277	*−3,139,723***	1 3 973	
1901-02	16,500,000	18,559,071	+2,059,071	1 3 988	
1902-03	16,500,000	18,499,946	+1,999,946	1 4 002	
1903-04	17,000,000	23,859,303	+6,859,303	1 4 049	
1904-05	16,500,000	24,425,558	+7,925,558	1 4 015	
1905-06	17,833,000	32,166,973	+14,333,973	1 4 042	
1906-07	17,800,000	33,157,196	+15,357,196	1 4 083	
1907-08	18,100,000	16,232,062	*−1,867,938††*	1 4 029	††Failure of monsoon, 1907 monetary crisis in America, severe and general trade depression
1908-09	18,500,000	13,915,426	*−4,584,574††*	1 3 931	
1909-10	16,200,000	27,096,586	+10,896,586	1 4 011	
1910-11	15,500,000	26,783,303	+11,283,303	1 4 060	
1911-12	17,158,300	27,058,550	+9,900,250	1 4 083	
1912-13	15,500,000	25,759,706	+10,259,706	1 4 058	

For the period 1872-73 to 1898-99 the average difference between the Budget Estimates and the actual amounts drawn was a shortage of 837,525*l*

For the period 1899-1900 to 1912-13 the average difference was an excess of 5,952,119*l*

Table III

Bills and Telegraphic Transfers

Amounts paid for in the First and Second Half of each Financial Year, 1894-95 to 1912-13

Year	April to September		Average Rate		October to March		Average Rate	
	Rupees	Sterling			Rupees	Sterling		
	Rs	£	s	d	Rs	£	s	d
1894-95	15,88,44,871	8,730,043	1	1 190	15,08,53,927	8,175,059	1	1 006
1895-96	16,62,95,158	9,215,992	1	1 301	14,45,59,215	8,448,500	1	2 026
1896-97	16,42,10,913	9,651,845	1	2 111	9,36,59,192	5,871,702	1	3 046
1897-98	6,85,20,590	4,252,887	1	2 896	7,96,07,420	5,253,190	1	3 837
1898-99	12,94,96,131	8,590,394	1	3 921	15,12,67,540	10,101,983	1	4 028
1899-00	12,23,47,402	8,157,133	1	4 002	16,24,53,541	10,909,589	1	4 117
1900-01	6,38,06,175	4,211,261	1	3 964	13,60,31,518	9,055,996	1	3 977
1901-02	9,61,94,653	6,385,759	1	3 932	18,21,06,397	12,153,312	1	4 017
1902-03	9,94,60,280	6,603,929	1	3 935	17,80,06,985	11,896,017	1	4 039
1903-04	14,26,05,137	9,502,887	1	3 993	21,41,89,708	14,356,416	1	4 086
1904-05	13,47,71,959	8,993,229	1	4 015	23,05,85,374	15,432,329	1	4 062
1905-06	15,25,02,477	10,179,857	1	4 020	32,87,40,779	21,987,116	1	4 052
1906-07	17,77,10,081	11,867,805	1	4 028	31,70,59,592	21,289,391	1	4 115
1907-08	16,11,87,898	10,796,875	1	4 076	8,18,57,517	5,435,187	1	3 936
1908-09	3,15,51,751	2,095,256	1	3 938	17,80,85,437	11,820,170	1	3 930
1909-10	15,32,35,306	10,181,694	1	3 951	25,21,86,715	16,911,892	1	4 095
1910-11	17,13,31,579	11,435,911	1	4 019	22,89,09,178	15,317,392	1	4 091
1911-12	17,96,97,568	12,019,885	1	4 053	22,40,73,180	15,038,665	1	4 108
1912-13	14,67,44,401	9,809,188	1	4 013	23,82,43,774	15,950,518	1	4 068
	Average -	8,564,271			Average -	12,391,285		

NOTE —It will be seen that the amount drawn in the second half of the financial year exceeds that drawn in the first half by more than 44 per cent on the average, and is almost invariably drawn at a higher rate of exchange

NOTE 1 —The difference between dnm on Location and Management of General Balances (page 82), is due to the fact that the former are the anon from the sale of those drafts

2 The figures of net import of sonagement of General Balances, as the latter include movements of gold on Government account

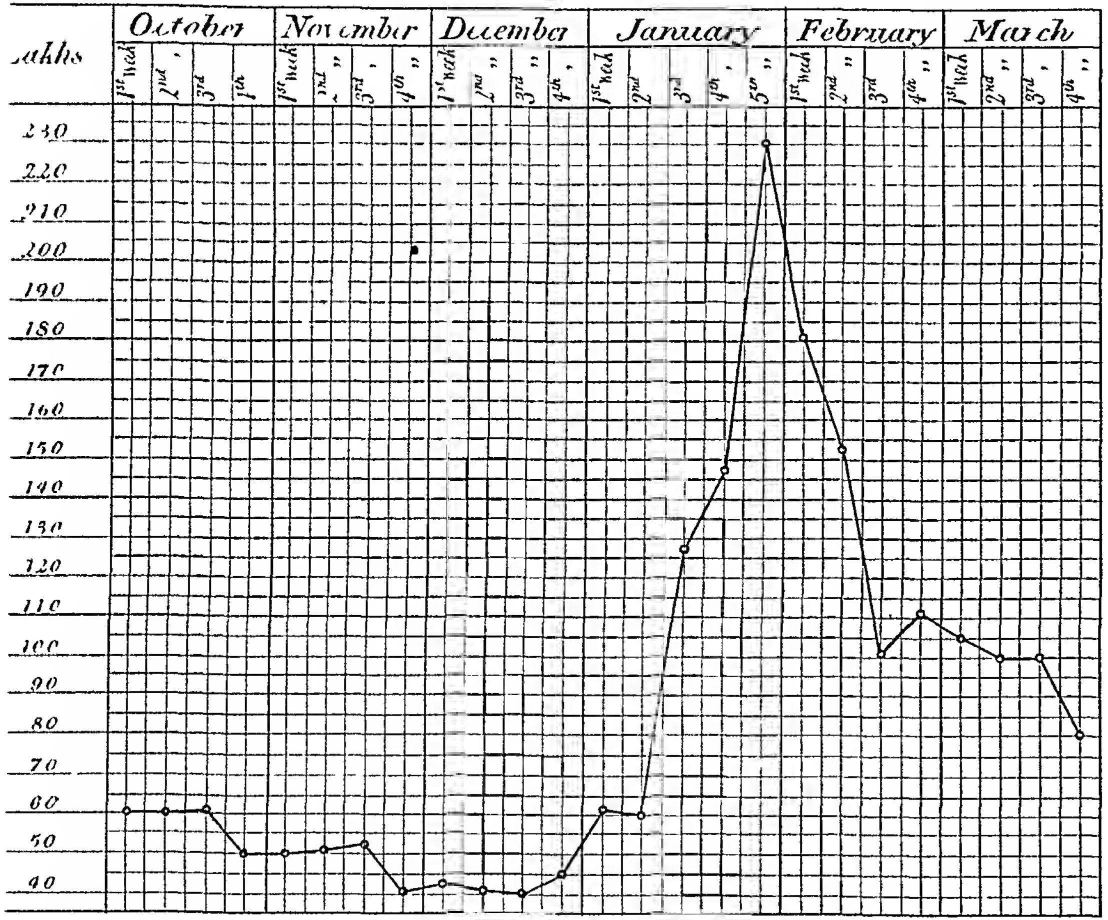
Excluding Government Transactions	1899–1900 c	1900–01	1901–02	1902–03
	£	£	£	£
Gross Exports of Merchandise -	72,650,800	71,579,300	82,976,600	85,877,900
" Imports of Merchandise -	47,141,200	50,851,900	54,346,000	52,525,300
Net Exports - -	25,509,600	20,727,400	28,630,600	33,352,600
Percentage of excess of Exports over Imports	54	41	53	64
This excess was met either in whole or part by—				
I Imports of—				
(1) Government securities, net (+)	+414,900	*−908,300*	+ 1,212,700	+ 1,152,500
(2) Silver bullion and coin, net (+)	+2,379,200	+949,100	+ 4,169,800	+ 4,651,000
(3) Gold bullion, net (+) -	+978,700	+146,500	Nil	+ 898,900
To the amount of—	3,772,800	187,300	5,382,500	6,702,400
And II Imports of—				
(1) Council Bills (*see Note 1 above*)	18,703,800	18,824,500	18,535,800	18,724,000
(2) Sovereigns, net import (+) (*see Note 2 above*)	+5,315,000	+4,897,200	+ 3,363,300	+ 5,413,900
To the amount of -	24,018,800	23,721,700	21,899,100	24,137,900

Excluding Government Transactions	1909–10	1910–11	1911–12	1912–13
	£	£	£	£
Gross Exports of Merchandise -	125,253,000	139,921,300	151,896,100	164,364,800
" Imports of Merchandise -	78,040,000	86,236,000	92,383,200	107,343,900
Net Exports - -	47,213,000	53,685,300	59,512,900	57,020,900
Percentage of excess of Exports over Imports	60	62	64	53
This excess was met either in whole or part by—				
I. Imports of—				
(1) Government securities, net (+)	*− 520,000*	+ 1,620,000	+ 706,700	(Figure not available)
(2) Silver bullion and coin, net (+)	+ 6,246,700	+ 5,738,800	+ 3,528,800	+ 4,382,500
(3) Gold bullion, net (+) -	+ 5,240,000	+ 7,610,900	+ 6,712,700	+ 7,280,800
To the amount of - -	10,966,700	14,969,700	10,948,200	—
And II Imports of—				
(1) Council Bills (*see Note 1 above*)	27,820,000	26,286,700	26,780,000	25,874,700 (Revised estimate)
(2) Sovereigns, net import (+) (*see Note 2 above*)	+ 9,213,300	+ 8,374,900	+ 18,465,500	+17,771,600
To the amount of -	37,033,300	34,661,600	45,245,500	43,646,300

a In March 1894 the duties on imports
c The sovereign was declared legal tendnports of Gold Bullion separately, the combined figure is shown under "Sovereigns"
e Net result of bills paid in India and d

Sales of Bills & Telegraphic Transfers Diagram to illustrate Table V.

1911-12



1912-13

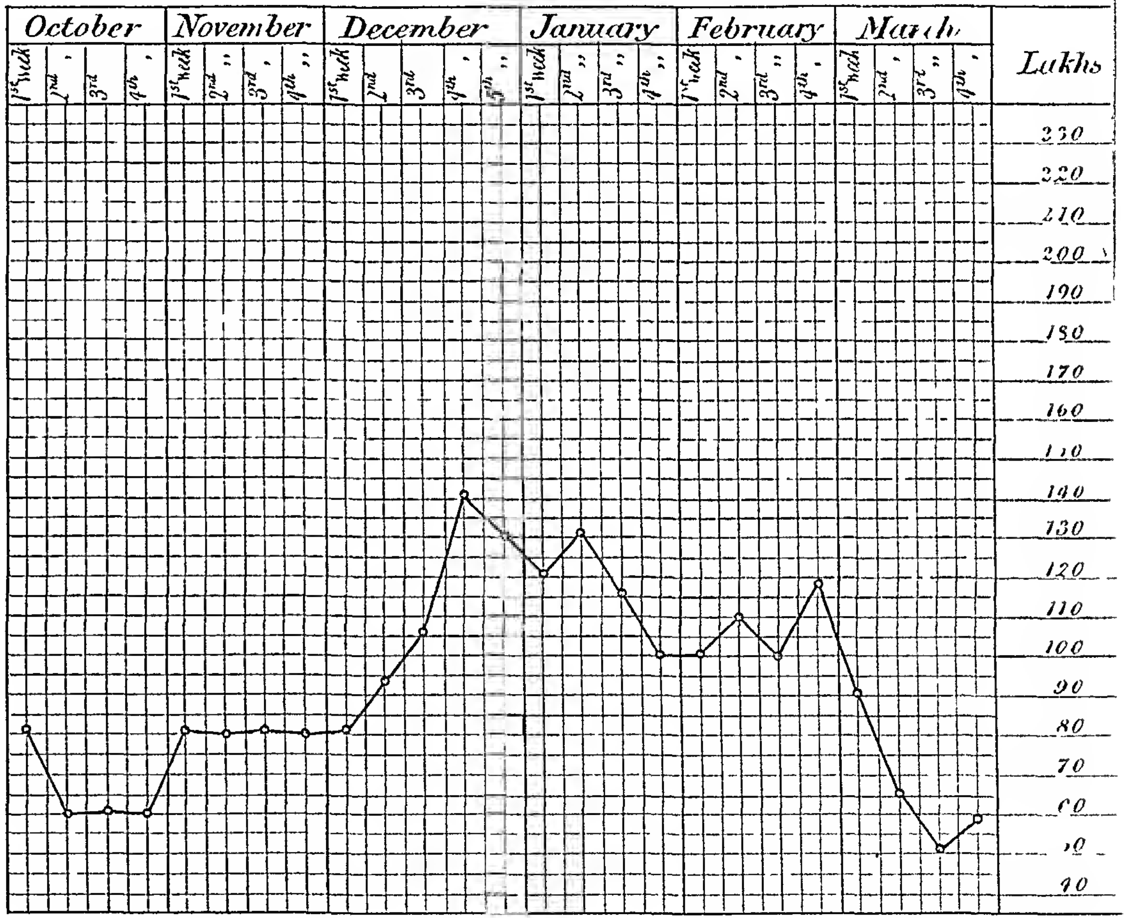


Table V.

A COMPARATIVE TABLE SHOWING THE SALES OF BILLS AND TELEGRAPHIC TRANSFERS FOR THE PERIOD OCTOBER TO MARCH, INCLUSIVE, 1911–12 AND 1912–13

Week ending Tuesday	Amount of Bills and Telegraphic Transfers sold (in Lakhs of Rs)	Rates: Bills, Highest	Rates: Bills, Lowest	Rates: T T s, Highest	Rates: T T s, Lowest	Week ending Tuesday	Amount of Bills and Telegraphic Transfers sold (in Lakhs of Rs)	Rates: Bills, Highest	Rates: Bills, Lowest	Rates: T T s, Highest	Rates: T T s, Lowest
1911		s d	s d	s d	s d	1912		s d	s d	s d	s d
10th Oct	60	1 4 3/32	1 4 1/16	1 4 3/32	1 4 3/32	8th Oct	81 6	1 4 1/16	1 4 1/16	1 4 1/16	1 4 1/16
17th Oct	60 1	1 4 3/32	1 4 1/16	1 4 1/8	1 4 3/32	15th Oct	60	1 4 1/16	1 4 3/32	1 4 3/32	1 4 3/32
24th Oct	60 7	1 4 3/32	1 4 1/16	1 4 1/8	1 4 3/32	22nd Oct	60 8	1 4 3/32	1 4 1/16	1 4 3/32	1 4 3/32
31st Oct	50	1 4 1/16	1 4 1/16	1 4 3/32	1 4 3/32	29th Oct	60 1	1 4 3/32	1 4 1/16	1 4 3/32	1 4 3/32
7th Nov	50	1 4 1/16	1 4 3/32	1 4 1/16	1 4 1/16	5th Nov	81 3	1 4 3/32	1 4 1/16	1 4 3/32	1 4 3/32
14th Nov	50 3	1 4 3/32	1 4 1/32	—	—	12th Nov	80	1 4 1/16	1 4 3/32	1 4 1/16	1 4 1/16
21st Nov	52 2	1 4 3/32	1 4 1/32	1 4 3/32	1 4 1/16	19th Nov	81 9	1 4 3/32	1 4 3/32	1 4 1/16	1 4 1/16
28th Nov	40 6	1 4 3/32	1 4 1/16	1 4 3/32	1 4 3/32	26th Nov	80 1	1 4 3/32	1 4 3/32	1 4 1/16	1 4 1/16
5th Dec	43 1	1 4 3/32	1 4 1/16	—	—	3rd Dec	82 5	1 4 3/32	1 4 1/16	1 4 3/32	1 4 3/32
12th Dec	40 7	1 4 3/32	1 4 1/16	—	—	10th Dec	94	1 4 3/32	1 4 1/16	1 4 3/32	1 4 3/32
19th Dec	40 5	1 4 3/32	1 4 1/16	—	—	17th Dec	108 1	1 4 1/8	1 4 3/32	1 4 3/32	1 4 1/8
26th Dec	45 2	1 4 3/32	1 4 1/16	1 4 1/8	1 4 3/32	23rd Dec	143 3	1 4 1/8	1 4 3/32	1 4 3/32	1 4 1/8
						31st Dec	130 2	1 4 1/8	1 4 3/32	1 4 1/8	1 4 1/8
1912											
2nd Jan	67 8	1 4 1/8	1 4 3/32	1 4 3/32	1 4 1/8	1913					
9th Jan	60 3	1 4 3/32	1 4 3/32	1 4 1/8	1 4 1/8	7th Jan	123 9	1 4 1/8	1 4 1/16	1 4 1/8	1 4 3/32
16th Jan	127 1	1 4 1/8	1 4 3/32	1 4 3/32	1 4 1/8	14th Jan	132 2	1 4 3/32	1 4 1/16	1 4 1/8	1 4 3/32
23rd Jan	118 9	1 4 1/8	1 4 3/32	1 4 3/32	1 4 1/8	21st Jan	117 1	1 4 3/32	1 4 1/16	1 4 1/8	1 4 3/32
30th Jan	230	1 4	1 4 3/32	1 4 3/32	1 4 1/8	28th Jan	100 7	1 4 3/32	1 4 1/16	1 4 3/32	1 4 3/32
6th Feb	181 2	1 4 1/8	1 4 3/32	1 4 3/32	1 4 1/8	4th Feb	102 3	1 4 3/32	1 4 1/32	1 4 3/32	1 4 1/16
13th Feb	153 2	1 4 1/8	1 4 3/32	1 4 3/32	1 4 1/8	11th Feb	110	1 4 1/32	1 4 1/32	1 4 3/32	1 4 1/16
20th Feb	101 9	1 4 1/8	1 4 3/32	1 4 3/32	1 4 1/8	18th Feb	100	1 4 1/32	1 4	1 4 1/16	1 4 1/32
27th Feb	111	1 4 3/32	1 4 3/32	1 4 3/32	1 4 1/8	25th Feb	119 5	1 4 1/32	1 4	1 4 1/16	1 4 1/32
5th Mar	105 6	1 4 1/8	1 4 3/32	1 4 3/32	1 4 1/8	4th Mar	92	1 4 1/32	1 4	1 4 1/16	1 4 1/32
12th Mar	100 1	1 4 1/8	1 4 3/32	1 4 1/8	1 4 1/8	11th Mar	65 9	1 4	1 4	1 4 1/16	1 4 1/32
19th Mar	100 3	1 4 1/8	1 4 3/32	1 4 1/8	1 4 1/8	18th Mar	51 5	1 4	1 4	1 4 1/32	1 4 1/32
26th Mar	80	1 4 3/32	1 4 1/16	1 4 1/8	1 4 3/32	25th Mar	58 5	1 4	1 3 31/32	1 4 1/32	1 4

Table VI

Council Bills and Telegraphic Transfers sold and Net Imports of Sovereigns on Private Account into India for each Month 1911–12 and 1912–13

Month	Prices realised: Bills, Highest		Bills, Lowest		Telegraphic Transfers, Highest		Telegraphic Transfers, Lowest		Total amount of Bills and Telegraphic Transfers Sold		Average Rates realised in decimals of a Penny and to the nearest $\frac{1}{32}$nd of a Penny		Net Imports of Sovereigns on Private Account into India
1911–12	s	d	s	d	s	d	s	d		Rs	s	d	£
April	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	1	$4\frac{1}{8}$	1	$4\frac{3}{32}$	B T T	54 10,413 363,84,000	1	4·091, say (1s $4\frac{3}{32}d$)	999,945
May	1	$4\frac{3}{32}$	1	$3\frac{31}{32}$	1	$4\frac{1}{8}$	1	4	B T T	71,60,439 374,44,000	1	4·063, say (1s $4\frac{1}{16}d$)	1,017,574
June	1	$4\frac{1}{32}$	1	$3\frac{15}{16}$	1	$4\frac{1}{16}$	1	$3\frac{31}{32}$	B T T	102,68,189 138,64,000	1	4·008, say (1s 4d)	171,819
July	1	$4\frac{1}{16}$	1	4	1	$4\frac{3}{32}$	1	$4\frac{1}{32}$	B T T	131,04,232 80 70,000	1	4·038, say (1s $4\frac{1}{32}d$)	444,194
August	1	$4\frac{1}{16}$	1	4	1	$4\frac{1}{16}$	1	$4\frac{1}{32}$	B T T	215,79,000 35,21 000	1	4·028, say (1s $4\frac{1}{32}d$)	325,298
September	1	$4\frac{3}{32}$	1	$4\frac{1}{32}$	1	$4\frac{1}{8}$	1	$4\frac{1}{16}$	B T T	193,79,293 37,47,000	1	4·057, say (1s $4\frac{1}{16}d$)	442,966
October	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	1	$4\frac{1}{8}$	1	$4\frac{3}{32}$	B T T	194,94,509 40,54,000	1	4·071, say (1s $4\frac{1}{16}d$)	1,660,090
November	1	$4\frac{3}{32}$	1	$4\frac{1}{32}$	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	B T T	228,01,351 7,01,000	1	4·046, say (1s $4\frac{1}{32}d$)	1,567,542
December	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	1	$4\frac{5}{32}$	1	$4\frac{3}{32}$	B T T	130,08,498 55,62,000	1	4·086, say (1s $4\frac{3}{32}d$)	1,660,928
January	1	$4\frac{1}{8}$	1	$4\frac{3}{32}$	1	$4\frac{5}{32}$	1	$4\frac{1}{8}$	B T T	84,63,039 645,26,000	1	4·136, say (1s $4\frac{1}{8}d$)	2,954,216
February	1	$4\frac{1}{8}$	1	$4\frac{3}{32}$	1	$4\frac{5}{32}$	1	$4\frac{1}{8}$	B T T	67,38,652 420,28,000	1	4·124, say (1s $4\frac{1}{8}d$)	4,272,225
March	1	$4\frac{1}{8}$	1	$4\frac{3}{32}$	1	$4\frac{5}{32}$	1	$4\frac{1}{16}$	B T T	75,79,133 290,22,000	1	4·105, say (1s $4\frac{3}{32}d$)	2,711,589
1912–13													
April	1	$4\frac{1}{16}$	1	$4\frac{1}{32}$	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	B T T	125,84,000 143,29,000	1	4·058 say (1s $4\frac{1}{16}d$)	1,196,474
May	1	$4\frac{1}{16}$	1	4	1	$4\frac{1}{16}$	1	$4\frac{1}{32}$	B T T	129,21,075 155,53,000	1	4·039 say (1s $4\frac{1}{32}d$)	1,500,615
June	1	$4\frac{1}{16}$	1	$4\frac{1}{32}$	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	B T T	107,75 942 105,93,000	1	4·049, say (1s $4\frac{1}{32}d$)	2 516,542
July	1	$4\frac{1}{16}$	1	4	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	B T T	220,19,929 54,47,000	1	4·039, say (1s $4\frac{1}{32}d$)	898,973
August	1	$4\frac{1}{16}$	1	$4\frac{1}{32}$	No sales				B T T	201,46,767 —	1	4·031 say (1s $4\frac{1}{32}d$)	1,822,480
September	1	$4\frac{1}{16}$	1	$4\frac{1}{32}$	1	$4\frac{1}{16}$	1	$4\frac{1}{16}$	B T T	217,49,693 4,48 000	1	4·040, say (1s $4\frac{1}{32}d$)	923,925
October	1	$4\frac{3}{32}$	1	$4\frac{1}{32}$	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	B T T	309,33,468 43,83,000	1	4·063, say (1s $4\frac{1}{16}d$)	744,902
November	1	$4\frac{3}{32}$	1	$4\frac{1}{32}$	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	B T T	277,57,060 46,10,000	1	4·054 say (1s $4\frac{1}{16}d$)	520,331
December	1	$4\frac{1}{8}$	1	$4\frac{1}{16}$	1	$4\frac{5}{32}$	1	$4\frac{3}{32}$	B T T	229,44,513 248 39,000	1	4·111 say (1s $4\frac{1}{8}d$)	2,101,829
January	1	$4\frac{1}{8}$	1	$4\frac{1}{32}$	1	$4\frac{1}{8}$	1	$4\frac{1}{16}$	B T T	254,97,994 318,99,000	1	4·085, say (1s $4\frac{3}{32}d$)	3,421,495
February	1	$4\frac{3}{32}$	1	4	1	$4\frac{3}{32}$	1	$4\frac{1}{32}$	B T T	63,66,792 357,17,000	1	4·042, say (1s $4\frac{1}{32}d$)	1,157 000
March	1	$4\frac{1}{32}$	1	$3\frac{31}{32}$	1	$4\frac{1}{16}$	1	4	B T T	55,50,946 176,83,000	1	4·014, say (1s 4d)	809,880

APPENDIX VIII

MEMORANDUM ON THE PAPER CURRENCY RESERVE SUBMITTED BY MR F W NEWMARCH, FINANCIAL SECRETARY

Under Acts of the Governor-General Nos VI of 1839, III of 1840 and IX of 1843 the Presidency Banks of Bengal, Bombay and Madras were authorised to issue notes payable on demand, but the issue of the notes was practically confined to the three cities of Calcutta, Bombay and Madras These notes were not legal tender The issues were limited to maxima of two crores of rupees in the cases of the Banks of Bengal and Bombay, and of one crore in that of the Bank of Madras These Acts were repealed by Act XIX of 1861, providing for the issue of a Paper Currency through a Government Department by means of notes of the Government of India payable to bearer on demand These notes were made legal tender within the circles of issue Since the 1st March 1862, when this Act took effect, no banks have been allowed to issue notes in India General historical sketch

2 Under this Act notes of such denominations not being less than ten rupees as might be from time to time prescribed were issuable against current silver coin of the Government of India or standard silver bullion or foreign silver coin at the rate of Rs 979 per 1,000 tolas of standard silver fit for coinage Provision was also made for the issue, under notification of the Government of India, of notes against gold coin of the Government of India or against foreign gold coin or gold bullion

* The tola, which is the weight of the rupee, is equal to 180 grains or three-eighths of an ounce, Troy The rupee contains 165 grains of fine silver

3 It was provided that bullion and coin should be retained as a Reserve to pay the notes issued, with the exception of such an amount not exceeding four crores of rupees as the Governor-General in Council with the consent of the Secretary of State for India might from time to time fix This amount was to be invested in "Government Securities" The invested portion of the Reserve

In December 1863 the composition of the Reserve against an issue of notes for Rs 5,11,00,000 was as follows —

	Rs
Silver Coin Reserve - - -	1,93,22,868
Silver Bullion Reserve - -	1,17,00,000
Government Securities - - -	2,00,77,132
	5,11,00,000

The invested portion of the Reserve, it will be seen was about two-fifths of the whole

4 The maximum portion of the Reserve which might be held in "securities of the Government of India" was increased by Act III of 1871 to 60 millions of rupees, it was subsequently raised to 80 millions by Act XV of 1890 and to 100 millions by Act XXI of 1896

5 A later Act, No III of 1905, while raising the limit of the invested portion of the Reserve to 120 millions of rupees (value at the price at which they are purchased), introduced a change in the description of the securities in which investments might be made by substituting for "securities of the Government of India," "securities of the United Kingdom of Great Britain "and Ireland or of the Government of India, or securities issued by the "Secretary of State for India *in Council under the authority* of Act of Parlia-"ment and charged on the revenues of India" It also provided that the value of such securities as were not securities of the Government of India should not exceed 20 millions of rupees A subsequent Act (No VII of 1911) raised the limit of the invested portion of the Reserve to 140 millions of rupees, and it provided that the amount of securities other than those of the Government of India should not exceed 40 millions of rupees

Table VI

Council Bills and Telegraphic Transfers sold and Net Imports of Sovereigns on Private Account into India for each Month 1911–12 and 1912–13

Month	Prices realised: Bills, Highest		Prices realised: Bills, Lowest		Prices realised: Telegraphic Transfers, Highest		Prices realised: Telegraphic Transfers, Lowest		Total amount of Bills and Telegraphic Transfers Sold		Average Rates realised in decimals of a Penny and to the nearest $\frac{1}{32}$nd of a Penny		Net Imports of Sovereigns on Private Account into India
1911–12	*s*	*d*	*s*	*d*	*s*	*d*	*s*	*d*		Rs	*s*	*d*	£
April	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	1	$4\frac{1}{8}$	1	$4\frac{3}{32}$	B T T	54,10,113 363,84,000	1	4·091, say (1*s* $4\frac{3}{32}$*d*)	999,945
May	1	$4\frac{3}{32}$	1	$3\frac{31}{32}$	1	$4\frac{1}{8}$	1	4	B T T	71,60,439 374,44,000	1	4·063, say (1*s* $4\frac{1}{16}$*d*)	1,017,571
June	1	$4\frac{1}{32}$	1	$3\frac{15}{16}$	1	$4\frac{1}{16}$	1	$3\frac{31}{32}$	B T T	102,68,189 138,64,000	1	4·008, say (1*s* 4*d*)	171,819
July	1	$4\frac{1}{16}$	1	4	1	$4\frac{3}{32}$	1	$4\frac{1}{32}$	B T T	131,04,232 80,70,000	1	4·038, say (1*s* $4\frac{1}{32}$*d*)	444,194
August	1	$4\frac{1}{16}$	1	4	1	$4\frac{1}{16}$	1	$4\frac{1}{32}$	B T T	215,79,000 35,21,000	1	4·028, say (1*s* $4\frac{1}{32}$*d*)	325,298
September	1	$4\frac{3}{32}$	1	$4\frac{1}{32}$	1	$4\frac{1}{8}$	1	$4\frac{1}{16}$	B T T	193,79,293 37,47,000	1	4·057, say (1*s* $4\frac{1}{16}$*d*)	442,966
October	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	1	$4\frac{1}{8}$	1	$4\frac{3}{32}$	B T T	194,94,509 10,54,000	1	4·071, say (1*s* $4\frac{1}{16}$*d*)	1,660,090
November	1	$4\frac{3}{32}$	1	$4\frac{1}{32}$	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	B T T	228,01,351 7,01,000	1	4·046, say (1*s* $4\frac{1}{32}$*d*)	1,567,542
December	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	1	$4\frac{5}{32}$	1	$4\frac{3}{32}$	B T T	130,08,498 55,62,000	1	4·086, say (1*s* $4\frac{3}{32}$*d*)	1,660,928
January	1	$4\frac{1}{8}$	1	$4\frac{3}{32}$	1	$4\frac{5}{32}$	1	$4\frac{1}{8}$	B T T	84,63,039 645,26,000	1	4·136, say (1*s* $4\frac{1}{8}$*d*)	2,954,216
February	1	$4\frac{1}{8}$	1	$4\frac{3}{32}$	1	$4\frac{5}{32}$	1	$4\frac{1}{8}$	B T T	67,38,652 420,28,000	1	4·124, say (1*s* $4\frac{1}{8}$*d*)	4,272,225
March	1	$4\frac{1}{8}$	1	$4\frac{1}{32}$	1	$4\frac{5}{32}$	1	$4\frac{1}{16}$	B T T	75,79,133 290,22,000	1	4·105, say (1*s* $4\frac{3}{32}$*d*)	2,711,589
1912–13													
April	1	$4\frac{1}{16}$	1	$4\frac{1}{32}$	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	B T T	125,84,000 143,29,000	1	4·058, say (1*s* $4\frac{1}{16}$*d*)	1,196,474
May	1	$4\frac{1}{16}$	1	4	1	$4\frac{1}{16}$	1	$4\frac{1}{32}$	B T T	129,21,075 155,53,000	1	4·039, say (1*s* $4\frac{1}{32}$*d*)	1,500,615
June	1	$4\frac{1}{16}$	1	$4\frac{1}{32}$	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	B T T	107,75,912 105,93,000	1	4·049, say (1*s* $4\frac{1}{32}$*d*)	2,516,542
July	1	$4\frac{1}{16}$	1	4	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	B T T	220,19,929 54,47,000	1	4·039, say (1*s* $4\frac{1}{32}$*d*)	898,973
August	1	$4\frac{1}{16}$	1	$4\frac{1}{32}$	No sales				B T T	201,46,767 —	1	4·031, say (1*s* $4\frac{1}{32}$*d*)	1,822,480
September	1	$4\frac{1}{16}$	1	$4\frac{1}{32}$	1	$4\frac{1}{16}$	1	$4\frac{1}{16}$	B T T	217,49,693 4,18,000	1	4·040, say (1*s* $4\frac{1}{32}$*d*)	923,925
October	1	$4\frac{3}{32}$	1	$4\frac{1}{32}$	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	B T T	309,33,468 43,83,000	1	4·063, say (1*s* $4\frac{1}{16}$*d*)	744,902
November	1	$4\frac{3}{32}$	1	$4\frac{1}{32}$	1	$4\frac{3}{32}$	1	$4\frac{1}{16}$	B T T	277,57,060 46,10,000	1	4·054, say (1*s* $4\frac{1}{16}$*d*)	520,331
December	1	$4\frac{1}{8}$	1	$4\frac{1}{16}$	1	$4\frac{5}{32}$	1	$4\frac{3}{32}$	B T T	229,44,513 248,39,000	1	4·111, say (1*s* $4\frac{1}{8}$*d*)	2,101,829
January	1	$4\frac{1}{8}$	1	$4\frac{1}{32}$	1	$4\frac{1}{8}$	1	$4\frac{1}{16}$	B T T	254,97,991 318,99,000	1	4·085, say (1*s* $4\frac{3}{32}$*d*)	3,421,495
February	1	$4\frac{3}{32}$	1	4	1	$4\frac{3}{32}$	1	$4\frac{1}{32}$	B T T	63,66,792 357,17,000	1	4·012, say (1*s* $4\frac{1}{32}$*d*)	1,157,000
March	1	$4\frac{1}{32}$	1	$3\frac{31}{32}$	1	$4\frac{1}{16}$	1	4	B T T	55,50,946 176,83,000	1	4·014, say (1*s* 4*d*)	809,880

APPENDIX VIII

MEMORANDUM ON THE PAPER CURRENCY RESERVE SUBMITTED BY MR F W NEWMARCH, FINANCIAL SECRETARY

General historical sketch

Under Acts of the Governor-General Nos VI of 1839, III of 1840 and IX of 1843 the Presidency Banks of Bengal, Bombay and Madras were authorised to issue notes payable on demand, but the issue of the notes was practically confined to the three cities of Calcutta, Bombay and Madras These notes were not legal tender The issues were limited to maxima of two crores of rupees in the cases of the Banks of Bengal and Bombay, and of one crore in that of the Bank of Madras These Acts were repealed by Act XIX of 1861, providing for the issue of a Paper Currency through a Government Department by means of notes of the Government of India payable to bearer on demand These notes were made legal tender within the circles of issue Since the 1st March 1862, when this Act took effect, no banks have been allowed to issue notes in India

2 Under this Act notes of such denominations not being less than ten rupees as might be from time to time prescribed were issuable against current silver coin of the Government of India or standard silver bullion or foreign silver coin at the rate of Rs 979 per 1,000 tolas of standard silver fit for coinage Provision was also made for the issue, under notification of the Government of India, of notes against gold coin of the Government of India or against foreign gold coin or gold bullion

* The tola, which is the weight of the rupee, is equal to 180 grains or three eighths of an ounce, Troy The rupee contains 165 grains of fine silver

The invested portion of the Reserve

3 It was provided that bullion and coin should be retained as a Reserve to pay the notes issued, with the exception of such an amount not exceeding four crores of rupees as the Governor-General in Council with the consent of the Secretary of State for India might from time to time fix This amount was to be invested in "Government Securities"

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5 A later Act, No III of 1905, while raising the limit of the invested portion of the Reserve to 120 millions of rupees (value at the price at which they are purchased), introduced a change in the description of the securities in which investments might be made by substituting for "securities of the Government of India," "securities of the United Kingdom of Great Britain "and Ireland or of the Government of India, or securities issued by the "Secretary of State for India in Council under the authority of Act of Parlia-'ment and charged on the revenues of India" It also provided that the value of such securities as were not securities of the Government of India should not exceed 20 millions of rupees A subsequent Act (No VII of 1911) raised the limit of the invested portion of the Reserve to 140 millions of rupees, and it provided that the amount of securities other than those of the Government of India should not exceed 40 millions of rupees

6 The invested portion of the Reserve is now 140 millions, or 14 crores of rupees, of which 10 crores are represented by securities of the Government of India, and 4 crores by securities of the British Government (*see also* paragraphs 45 and 46) The correspondence that passed in 1904 and 1911 between the Secretary of State and the Government of India regarding the additions made in those years is attached (Note II, pages 255–83)

7 A Table (No 1, page 248) appended to this Note shows the total note circulation and the composition of the Reserve held against it in (1) silver (2) gold (when any portion of the Reserve was so held) and (3) securities, as these stood at 31st March in each year from 1862 to 1913, with the percentages borne by silver, gold, and securities to the total amount of the Reserve

Denominations of notes

8 The Act of 1861 did not provide for the issue of notes of lower denominations than 10 rupees A 5 rupee note was introduced by Act III of 1871

9 The following Table shows the numbers of the several denominations of currency notes in circulation on the last day of each of the years 1872–73, 1882–83, 1892–93, 1902–03, and 1911–12 —

Year	5	10	20	50	100	500	1,000	10,000
1872–73	310 001	970,517	441,871	157,965	214,110	27,957	57,635	576
1882–83	475,457	1,955,081	264,819	173,132	301,585	28,513	38,158	2,661
1892–93	495,456	3,917,336	330,083	232,482	568,068	50,648	67,981	5,403
1902–03	872,414	5,960,226	462,952	263,866	898,724	56,348	65,653	8,712
1911–12	2,599,877	15,090,740	65,633	379,255	1,652,209	56,102	92,971	14,320

10 By Act III of 1905 the 5 rupee note issued from any town not in Burma was made legal tender in any place in British India except Burma and was payable at any office of issue not in Burma By Act II of 1909 the exception as to Burma was removed, and the 5 rupee note was made "universal" By Act II of 1910 the 10 rupee and 50 rupee notes were also made "universal," and by a notification issued under that Act the 100 rupee note was also made universal from 1st April 1911 The issue of 20 rupee notes was discontinued under another notification, issued under the same Act, from 18th February 1910

11 There has been a great increase in the popularity of paper money in recent years, which is partly, but not wholly, attributable to the universalisation of various denominations of notes

Composition and location of the Reserve

12 As stated above, the Act of 1861 made provision for the issue, under notification of the Government of India, of notes against gold coin or bullion But this power was not exercised for some time

Gold appears for the first time in the Paper Currency Reserve in 1865, when 20 15 lakhs were held in that form, the quantity had fallen to Rs 72,520 in 1871, and gold disappeared from the Reserve after 1875

Changes introduced consequent on the recommendations of the Herschell Committee and the Fowler Commission

Closing of Indian Mints

13 No further change in the composition of the Paper Currency Reserve (other than an increase of the invested portion) was made until 1893 when, in pursuance of the recommendations of Lord Herschell's Committee, an Act was passed (No VIII of 1893) providing for the closing of the Indian Mints to the free coinage of silver This Act took effect from 26th June 1893 On the same date the following notifications were issued —

(1) Providing for the receipt at the Calcutta and Bombay Mints of gold coin and gold bullion in exchange for rupees, at the rate of 7 53344 grains troy of fine gold for one rupee

(2) Providing for the receipt of sovereigns and half-sovereigns of current weight at Indian Treasuries as the equivalent of 15 rupees and 7 rupees 8 annas respectively

(3) Providing for the issue of notes against gold coin and gold bullion at the rate of one rupee to 7 53344 grains troy of fine gold Sovereigns and half-sovereigns of current weight were to be taken as the equivalent of 15 rupees and 7 rupees 8 annas respectively

(A subsequent notification of 1906 modified the first of these notifications so as to provide that only sovereigns and half-sovereigns should be received at the Indian Mints in exchange for rupees)

14 These were the first steps towards the establishment of a Gold Standard They were supplemented six years later by the Act No XXII of 1899 making British gold coins legal tender

Sovereigns made legal tender

15 In 1898 an Act had also been passed (II of 1898) enabling notes to be issued against gold held by the Secretary of State in London This Act was intended as a temporary measure to meet exceptional conditions

The Gold Note Act

The balances of the Government of India were at a low level There was a difficulty in meeting from them the Secretary of State's drafts, for which there was a strong market demand, money being exceptionally dear in India, with Calcutta and Bombay bank rates 11 and 12 per cent respectively, and exchange having risen to gold point (selling rate of telegraphic transfers on India 1*s* $4\frac{5}{32}$*d* per rupee) In order to meet this crisis the Act above referred to was passed Under it the proceeds of the Secretary of State's sales of Council Bills could be set aside at the Bank of England in gold as part of the Indian Paper Currency Reserve The Government of India could issue notes against the gold so set aside, and with them could meet *pro tanto* the Secretary of State's drafts, without reducing their Treasury balances

16 The Act authorising this procedure was, as stated above, intended to be a temporary measure It provided that gold set apart under it by the Secretary of State should be held by him " until he shall transmit the same, " or what he shall determine to be equivalent to the same, in gold coin or " gold bullion to India, or until the Government of India shall appropriate " and set apart in India as a part of the Currency Reserve " an amount of coin of the Government of India equal in value to such " notes "

17 The utility of the Act as something more than an emergency measure was, however, soon recognised, it was extended for $2\frac{1}{2}$ years by Act VIII of 1898 and for a further period of two years by an Act No VIII of 1900, which empowered the Secretary of State to expend the gold held by him on the purchase of silver bullion and to transmit such bullion to India for currency purposes This Act also enabled the silver bullion purchased under it to be held as security for currency notes until rupees were coined from it It also provided that on receiving silver bullion the Government of India should coin it into rupees, and add to the Currency Reserve a number of rupees equal in value at 15 rupees = 1*l* to the price of the silver bullion bought and transmitted to them By Act IX of 1902 the main provisions of the Act of 1900 were made permanent

18 Thus the Secretary of State might either (1) hold gold in this country as part of the reserve against the note issue in India, or (2) he might transmit the gold to India to serve the same purpose there, or (3) he might expend it on the purchase of silver, also to form part of the reserve Gold or silver in transit to India, from its location as part of the reserve in England, or *vice versâ*, remains part of the reserve while in transit (Act VIII of 1900, Section 2, Act III of 1905, Section 26, and Act X of 1910, Section 21)

19 In practice, only Nos 1 and 3 of the three alternative courses mentioned in the last paragraph are adopted Ordinarily the balance of trade in favour of India admits of the importation of sovereigns on private account to an extent sufficient to meet the demands of the public, so that the shipment of sovereigns by the Secretary of State from England to India is unnecessary and would involve a needless waste of money on freight, &c

20 When exceptionally the stock of gold available for issue to the public in India is not sufficiently maintained by imports of sovereigns from abroad as in the crisis of 1908–09, the gold held in London can clearly be better utilised for the support of exchange if kept there than if shipped to India It can, in such a crisis, be transferred from Paper Currency Reserve to Treasury balances, against an equivalent transfer in the reverse direction in India Such a double transfer is equivalent to a remittance of Treasury balances from India to London, and may be used to obviate the necessity for making a remittance by means of the sale of Council drafts, at a time when such a remittance is either impracticable or only practicable at the cost of seriously depressing exchange

Holding of a portion of the Paper Currency Reserve in London

21 Thus the holding of a portion of the Paper Currency Reserve in London serves a double purpose (1), it may be used in payment for purchases of silver, and (2) it may serve as a support to exchange at times when the balance of trade is unfavourable to India

22 Some portion of the Reserve has accordingly been so held continuously since 1905 The amount then held in India had risen to 11,000,000*l*, and appeared to form a disproportionately large component of the Reserve, while the silver portion was somewhat low (less than one-third of the whole), 5,000,000*l* were accordingly shipped to this country, and it was subsequently decided to aim at holding not less than that amount normally, in London (*See* correspondence attached, Note III, pages 284–8) The amount held there reached 8,100,000*l* in April 1907, in the exchange crisis of 1907–09 it was reduced to 1,500,000*l* The amount now deposited at the Bank of England is 6,100,000*l*

23 The transfer of a portion of the Paper Currency Reserve from India to London by the shipment of sovereigns is, however, an unnecessarily expensive process, involving as it does the cost of freight, insurance, &c Additions to the stock of gold held in the Paper Currency Reserve in London are made (1) by earmarking gold from the money at the Secretary of State's credit at the Bank of England, *i e*, transferring to the Paper Currency Reserve, so as to allow the Government of India to issue additional notes or to withdraw rupees from the Reserve in India, or (2) by purchasing sovereigns in transit to India, and diverting them to London, against telegraphic transfers on India

* *See* paragraph 11 of Note on the sale of Council Bills and Telegraphic Transfers, page 218

24 Of the gold coin which flows into India in the ordinary course of adjustment of trade balance only a small portion passes direct into the hands of the public, far the greater part is tendered to Government and passes into the Paper Currency Reserve, to be exchanged for notes or rupees There is also a steady efflux of gold from Paper Currency Reserve, in exchange for notes or rupees, which does not, however, prevent the gold portion of the Reserve from becoming sometimes unduly large in proportion to the silver portion, as shown in paragraph 22 above Note I, Table No III, pages 251–3, shows the influx and efflux month by month from 1st April 1899 to 31st March 1911, and week by week from that date onwards

Quantities of (1) silver (2) gold to be held in the Paper Currency Reserve

25 In any year of normal seasons there is during the winter months a large efflux of silver coin from Currency Reserve, which is counteracted, but only to a partial extent, by a return of rupees from circulation during the summer months or dull season The net result is that in the absence of new coinage the silver portion of the Reserve tends steadily to contract

26 In periods of bad seasons and trade depression, as in the years 1908 and 1909, this process may be temporarily reversed Thus in the period 1st April 1908 to 31st March 1909 the amount of coined silver in the Reserves† increased, with a new coinage of only 24 51 lakhs, from 3,126 lakhs to 4,708 lakhs, so that there was a net return of 1,557 5 lakhs from circulation in the year This, however, was

† Paper Currency and Gold Standard combined, *see* paragraph 30 *et seq*, page 244

altogether exceptional In the period 1894–95 to 1912–13 the average rate of net efflux from Currency Reserve was 617 21 lakhs per annum

The figures are as follows —

	Lakhs
1st April 1894 to 31st March 1900, average net annual efflux - - - - - - -	320 11
1st April 1900 to 31st March 1908, average net annual efflux - - - - - - - -	912 3
1st April 1908 to 31st March 1910, average net annual *return from circulation* - - - -	77
1st April 1910 to 31st March 1913, average net annual efflux - - - - - - - -	886
Average net annual efflux, 1894–5 to 1912–13 -	617 21

27 After the closing of the Indian mints to the free coinage of silver in 1893, the course adopted was to allow the stock of rupees in Currency Reserve to run down by this automatic process of depletion until it should reach as low a point as was consistent with safety From 1898 onwards sovereigns flowed into the country in adjustment of the balance of trade in favour of India and passed in considerable quantities into the Currency Reserve, so that at 31st March 1900, the composition of the Reserve, as compared with 31st March 1894, was as follows —

—	1894		1900	
	Amount	Percentage of Total	Amount	Percentage of Total
	Lakhs		Lakhs	
Gold - - -	Nil	—	1,350†	47
Silver - - -	2,241	73 7	523	18 1
Securities - -	800	26 3	1,000	34 9
Total - -	3,041	100	2,873	100

† Of this 1,125 lakhs (7,500,000*l*) were held in India and 225 lakhs (1,500,000*l*) in England

28 Before this date, however, it had become apparent that the rupee reserve was approaching a dangerously low level, and the coinage of new rupees was begun about the end of January 1900 The silver in Currency Reserve fell below 5 crores in February About 1½ crores of rupees were added to the coinage in the last months of 1899–1900, and some addition to it was made in each year down to 1907–08, the amounts coined in the years 1905–06, 1906–07, and 1907–08 being very large indeed (*see* Note I, Table IV, page 254) The Silver Reserve was never again allowed to fall to so low a figure as that reached in February 1900, but in January 1904, under pressure of very heavy demands due to the activity of trade it fell to 750¾ lakhs of rupees, or about 28 per cent of the total Reserve

29 There was practically no new coinage in 1908-9, 1909–10, 1910–11, or 1911–12 Early in 1912, however, the stock in Paper Currency was being rapidly depleted It fell to 1,157 lakhs at 7th May, in addition to which there was a further stock of 290 lakhs in Gold Standard Reserve (*see* paragraph below), making a total of 1,447 lakhs, and allowing for a certain return of silver from circulation during the summer months, it appeared clear that the stock held at the commencement of the busy season would be below the required amount (*see* paragraph 37, page 245) Coinage to the extent of about 1,575 lakhs of rupees was therefore carried out in 1912–13

Of this amount 310 lakhs passed into what was until recently known as the Silver Branch (*see* next paragraph)—now the Indian Branch—of the Gold

* *See* paragraph 19 above, page 241

Standard Reserve, the remainder passing into the Paper Currency Reserve The amount held in the two Reserves at 31st March 1913 was 2,245 lakhs, as against 1,830 at 31st March 1912

The "Ingot Reserve" and the Silver Branch of the Gold Standard Reserve

30 Reference has been made in the last paragraph to the Silver Branch, or as it is now called, the Indian Branch of the Gold Standard Reserve This had its beginning in 1906 Before that date, i e, since the autumn of 1904, the Government of India, with the approval of the Secretary of State, had held a portion of their Paper Currency Reserve in the shape of silver ingots, so far prepared for coinage by having passed through the processes of melting, alligating, assaying, &c, as to be capable of being issued in the form of new rupees within five days from the date of an order to coin being given Credit for these rupees was taken in the Paper Currency Reserve at their bullion value, and the amount of the Reserve so held was at first 300 lakhs of rupees, i e, silver purchased at a cost of 2,000,000*l* This silver would of course produce much more than 300 lakhs of rupees, but the excess over 300 lakhs would be a credit to Gold Standard Reserve, not Paper Currency Reserve

31 This reserve was intended to be treated as an emergency reserve, only to be drawn upon to meet sudden demands, and when drawn upon to be restored to its authorised figure at the earliest possible opportunity The banking and commercial public had been alarmed at the rapid withdrawal of rupees from Currency Reserve at seasons of exceptionally active trade, as in the winter of 1903-04, when the efflux amounted to more than 4 crores of rupees in the one month of December 1903 Apprehensions had been expressed of a possible failure of the supply of rupees, and the Government of India thought that the holding of an emergency reserve, although held within the Paper Currency Reserve, would strengthen confidence in their position

32 The next step was a proposal of the Government of India, which was approved by the Secretary of State in January 1906, to increase the "Ingot Reserve" from 300 to 600 lakhs of rupees Before this was put into effect, however, the original Reserve had been exhausted under the pressure of a great demand for new rupees, and the Government of India submitted in April 1906, a proposal to hold the increased ingot Reserve not as a part of the Paper Currency Reserve, but as a branch of what had, up to that time, been called the "Gold Reserve Fund," but which, in view of its altered composition it was decided to denominate in future the Gold Standard Reserve

33 The silver composing this fund represented, of course, the profits of other coinage, thus reducing *pro tanto* the amount for the time available for investment in gold securities The Government of India did not regard this as an evil They wrote "as regards gold, the position "already attained is undeniably strong "We have accumulated by a natural process a stock of over 12,000,000*l* "in the Gold Reserve Fund, besides over 11,000,000*l* in the Currency "Reserve, and in addition the paper currency investment now includes "1½ millions worth of sterling securities During seven years we have "never been threatened with serious attack from this side We are far "from affirming that the point has been reached or is in sight, when further "accumulations of gold should cease Even a relatively small depletion of "our total stock of gold might excite public apprehension and this is the more "important now that it has been decided to divide our stock by holding five "millions or more in your currency chest in London At the present time "we hold less than four millions of gold in India, and we are assured that "no material reduction in this figure would be consistent with public "confidence"

* Financial Despatch to the Secretary of State, No 144, dated 26th April 1906 (*See* Appendix V, page 137)

Then follows this important statement "We are however satisfied that 'further direct additions to the Gold Reserve Fund can with advantage be 'temporarily suspended if such a measure would enable us to strengthen

"our position on a weaker side The case of silver is wholly different "From first to last our only practical difficulty has been the timely provision "of rupees, and notwithstanding various improvements of method that "difficulty still remains, and as recent experience has again shown it "constitutes a real danger"

34 The practice of holding a portion of the Gold Standard Reserve in silver has met with much criticism, and is discussed in Mr Abrahams' note on the Gold Standard Reserve (*see* Appendix III, pages 94–6)*

It may be mentioned here that the course adopted in 1906 had the effect of increasing the rupee reserves by six crores without increasing at all (as an addition of six crores to the silver held *within* the Paper Currency Reserve would have done) the volume of the notes liable to be presented for encashment. The same result could have been obtained by taking from the gold in the Paper Currency Reserve an amount sufficient to buy silver to produce six crores of rupees, and the Government of India considered this alternative method, but dismissed it on the ground that it would unduly deplete their stock of gold Taking as the basis of their calculations a note issue of 42 crores, against which the invested portion of the Reserve was 12, they argued that they could not hold within the Reserve 18 crores of rupees (which they regarded as a suitable stock wherewith to begin the busy season), as well as an ingot reserve of 4 crores (at bullion value, capable of being coined into about 600 lakhs of rupees), without reducing the gold portion of the Reserve to a too low figure, viz, 8 crores = £5,333,333. By the method which they adopted they were able to hold a total silver reserve of 24 crores, bearing a proportion of slightly more than 57 per cent to the note circulation, whereas, if they had added 6 crores of rupees to the Paper Currency Reserve, and therefore to the note issue, the silver held would have only borne a proportion of 50 per cent to the larger note issue

Invested portion	12
Rupees	18
Ingot Reserve	4
Gold	8
	42

Quantities of silver, gold, and investments to be held in Paper Currency Reserve—*contd*

* The silver branch of the Gold Standard Reserve also formed the nucleus to which the large sums (exceeding £8,000,000) received by the Government of India in payment for Bills on London were added, in rupees, during the crisis of 1907–09

35 The proportion which the silver reserves should bear to the total Paper Currency Reserve has not, however, been laid down in terms of a percentage to the rapidly increasing amount of the latter As has been shown above (*see* paragraph 27, page 213), the percentage has been as low as 18 1 in 1900, but when, later on, it fell again as low as 28 per cent, the situation was regarded as dangerous (paragraph 28, page 213) Silver

36 Conditions are however, changing, and the efflux of rupees from the Reserve in the busy season and the net withdrawal in the whole year have hardly been on so large a scale in the recent years of active trade, 1909–10, 1910–11, 1911–12 and 1912–13, as in earlier years of trade activity, viz, 1903–04 to 1906–07 (*see* paragraph 28) This appears to have been due partly to an increasing popularity of the note circulation (*see* paragraphs 10 and 11 above, page 210), and partly to an increasing circulation of gold coin On the other hand the total volume of the Reserve has increased enormously —from 39 crores of rupees at 31st March 1905 to 69 crores at the same date in 1913 Thus if the requisite reserve of silver were calculated on the basis of a percentage to the total note circulation that reserve would have to be 75 per cent larger* now than eight years ago Such a method of regulating the stock of rupees to be held in the Reserve, or Reserves, would thus be clearly mistaken

37 The formula accepted for present guidance is that the amount held in Paper Currency and Gold Standard Reserve combined should be at

* If account were taken only of the "active" circulation, *i e*, the total circulation less notes held in Government Treasuries and Presidency Banks, the increase would be less, because owing to the Government balances having been unusually high at the end of the period in question, the difference between total and active note circulation at that date must have been much above the average The exact figures of total and active note circulation at 31st March 1913 are, however, not available

least 24 crores of rupees at the commencement of the "busy" season (1st October) and not less than 17½ crores towards the end of that season, during which there is normally a large withdrawal of rupees from the Reserve During the October—December quarter, the accepted policy is to keep the stock in Paper Currency Reserve up to 18 crores, coining silver for the purpose as may be necessary, and to hold the 6 crores in Gold Standard Reserve intact, but after 31st December to draw upon the silver in the Gold Standard Reserve, if necessary, so as to maintain a minimum of 15 crores in Paper Currency Reserve, provided that the total stock of rupees in the two Reserves does not fall below 17½ crores at 31st March Rupees thus transferred from Gold Standard Reserve to Currency Reserve are to be replaced by gold transferred from the latter to the former Reserve After the busy season closes and when the return of rupees from circulation into Currency Reserve has set in, gold is to be transferred back from Gold Standard to Currency Reserve, in exchange for silver transferred from the latter to the former This arrangement gives a degree of elasticity to the system and enables the Paper Currency to be worked safely with perhaps a minimum stock of silver

38 A formula of this kind must, however, be expected to need revision from time to time No one expects it to serve as a hard and fast standard for all time, but for the present it seems sufficient to retain it a guide for action, while carefully watching its applicability to the changing conditions

39 It appears from Note I, Table No IV, page 251, that on the average of the past 19 years an annual purchase of about 23,127,000 ounces of silver, producing about 617 lakhs of new rupees, will serve to keep up a certain stock of rupees It is sometimes said, I believe, that on the basis of a calculation of this sort, the Secretary of State should buy regularly, year by year, or month by month, a certain number of thousands of ounces of silver The practice of other countries, such as France and the United States, is cited as an example to be followed by him It is urged that if he did so the fluctuations in the price of silver would be restricted, and trade between India and countries having a purely silver standard, such as China, would be put upon a sounder basis

40 But the conditions with which those who are responsible for the regulation of the Indian currency have to deal are different from those existent in any other country in the world The influence which dominates all others is that of the seasonal monsoon In good seasons, as stated above, paragraphs 25 and 26, pages 212–3, there is a steady absorption of rupees which, if a tolerably constant succession of good seasons could be relied upon, would justify a regular and constant purchase of silver for new coinage

41 During the six years, 1902–3 to 1907–08, new coinage proceeded at an average rate of 1,302 72 lakhs a year, with the result that at the end of the period the stocks of silver in Paper Currency and Gold Standard Reserves had increased by 2,005 lakhs Thus new coinage at the rate of 968 56 lakhs per annum would have maintained the Reserves at the figure at which they stood at 31st March 1902 With hardly any coinage of new rupees the quantity held in Paper Currency Reserve and Gold Standard Reserve combined was increased between 1st April 1908 and 1st April 1910 from 3,126 to 3,316 lakhs Had the experience of the six years prior to 1st April 1908 been relied upon as a guide for the future, and had new coinage proceeded at the rate of 968 56 lakhs a year, the stock held in the two Reserves combined at the latter date would have been 5,063 lakhs and, with a continuance of bad seasons and purchases of silver for coinage, the accumulation of silver coin might have progressed indefinitely

* It reached its highest figure, 4,914 lakhs, at the end of August 1909

42 Purchases of silver, it is to be remembered, must be paid for either with gold taken from the Paper Currency Reserve or by additional sales of Council Bills But after any lengthened exchange crisis the quantity of gold held in the Currency Reserve must necessarily have fallen low It had

fallen to 1,500,000*l* at the close of the crisis of 1907–09 At such a time it needs to be replenished, not depleted Its utilisation for the purchase of silver would directly deplete it, increased sales of Bills to pay for silver would retard its replenishment

43 The policy of Government, therefore, for this reason if for no other, must be not to buy silver for new coinage when there is already an excessive accumulation of silver coin in the Currency Reserve, and indeed not to buy until the prospect of the stock falling to an unduly low level, measured according to the best estimates that can be framed (*see* paragraph 37, page 245) seems to be in sight

44 As regards gold, the accepted policy is to allow the stock held to increase with the influx which takes place in times of active trade, that is when the sales of Council Bills fall far short of meeting the demand for remittance to India, until the amount of gold held in the Reserve becomes large out of proportion to the amount of silver It is impossible to fix a point at which this takes place Some years ago (1905), when the total Currency Reserve was only about four-sevenths of its present size, a holding of 10,000,000*l* in sovereigns was looked upon as excessive In the last few months the amount has been allowed to reach nearly 27,000,000*l*, while silver has not been at a dangerously low level If sovereigns continue to form an increasing part of the circulation, and if rupees continue to be withdrawn on a diminishing scale from the Currency Reserve, the portion of that Reserve held in gold may be allowed to grow The gold portion of the Reserve need only be reduced if and when it is required to use a portion of it for the purchase of silver Gold

45 The ratio borne by the invested portion of the Reserve to the whole, as will be seen from Note I, Table I, pages 248–9, has varied greatly Down to 1879 it was frequently more than 50 per cent of the whole Since the closing of the Indian Mints it has often exceeded 40 per cent At 31st March 1913 it was only a little over 20 per cent of the whole The fiduciary portion of the Reserve held by the Bank of England against its note issue it may be observed, is seldom less than 31 per cent The invested portion of the Reserve

46 The growth of the Indian note circulation, as observed above (paragraph 36, page 245), has been extraordinarily rapid of late years If it continues a further increase of the invested portion of the Reserve will, no doubt, soon become practicable

NOTE 1 —TABLES

Table No I

Paper Currency Reserve

Year (1st day in March)	Total Note Circulation	Composition and Location of the Reserve							Percentage of Silver to total Reserve	Percentage of Gold to Total Reserve	Percentage of Securities to Total Reserve
		Silver	Gold			Securities					
		India	India	England	Total	India	England	Total			
	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs			
1862	3,69,00,000	3,69,00,000	—	—	—	—	—	—	100	—	—
1863	4,92,60,000	4,24 11,140	—	—	—	(a)68,48,860	—	68,48,860	86 1	—	13 9
1864	5,35,00,000	2,86,27,220	—	—	—	2,48,72,780	—	2,48,72,780	53 5	—	46 5
1865	7,42,73,270	3,65,13,250	20,14,850	—	20,14,850	3,57,45,170	—	3,57,45,170	49 2	2 7	48 1
1866	6,89,81,810	2,91,82,050	220	—	220	3,98,02,540	—	3,98,02,540	42 3	—	57 7
1867	8,09,08,680	4,82,68,540	1,19,590	—	1,19,590	3,25,20,550	—	3,25,20,550	59 7	1	40 2
1868	9,06,95,690	5,80,27,630	1,47,510	—	1,47,510	3,25,20,550	—	3,25,20,550	64	—	36
1869	9,95,92,960	6,01,50,410	3,12,490	—	3,12,490	3,91,30,060	—	3,91,30,060	60 4	3	39 3
1870	10,47,28,830	6,83,82,830	3,12,490	—	3,12,490	3,60,33,510	—	3,60,33,510	65 3	3	34 4
1871	10,43,72,910	7,20,28,380	72,520	—	72,520	3,22,72,010	—	3,22,72,010	69	1	30 9
1872	13,16,79,170	7,25 12,920	72,490	—	72,490	(b)5,90,93,760	—	5,90,93,760	55	1	44 9
1873	11,13,50,610	5,43,38,580	72,490	—	72,490	5 69,39,530	—	5,69,39,530	48 8	1	51 1
1874	9,24,97,610	3,54,85,590	72,490	—	72,490	5,69,39,530	—	5,69,39,530	38 4	1	61 5
1875	11,23,64,380	5,53,52,360	72,490	—	72,490	5,69,39,530	—	5,69,39,530	49 2	1	50 7
1876	10,99,99,270	5,30,59,720	—	—	—	5,69,39,530	—	5,69,39,530	48 2	—	51 8
1877	11,61,78,110	5,61,97,210	—	—	—	5,99,80,900	—	5,99,80,900	48 4	—	51 6
1878	13,57,47,500	7,88,15,030	—	—	—	5,69,32,460	—	5,69,32,460	58 1	—	41 9
1879	11,42 36,450	5,42,45,270	—	—	—	5,99,91,170	—	5,99,91,170	47 5	—	52 5
1880	12,35,77,270	6,36,06,520	—	—	—	5,99,70,750	—	5,99,70,750	51 5	—	48 5
1881	13,40,17,360	7,40,93,180	—	—	—	5,99,24,180	—	5,99,24,180	55 3	—	44 7
1882	13,90,71,780	7,90,67,850	—	—	—	5,99,99,970	—	5,99,99,970	56 9	—	43 1
1883	14,50,64,080	8,50,64,110	—	—	—	5,99,99,970	—	5,99,99,970	58 6	—	41 4
1884	12,75,65,410	6,75,65,410	—	—	—	6,00,00,000	—	6,00,00,000	53	—	47
1885	14,57,69,040	8,57,71,540	—	—	—	5,99 97,500	—	5,99,97,500	58 8	—	41 2
1886	14,17,32,720	8,17,37,720	—	—	—	5,99,95 000	—	5,99,95,000	57 7	—	42 3
1887	13,87,68,360	7,87,75,860	—	—	—	5,99,92,500	—	5,99 92,500	56 8	—	43 2

1888	16,42,43,790	10,42,53,760	—	—	—	5,99,90,030	—	5,99,90,030	63 5	—	36 5
1889	15,73,78,130	9,75,58,100	—	—	—	5 98,20,030	—	5,98,20,030	62	—	38
1890	15,77,17,800	9,77,17,820	—	—	—	5,99,99,980	—	5,99,99,980	62	—	38
1891	25,69,04,490	18,69,04,530	—	—	—	6,99,99,960	—	6,99,99,960	72 8	—	27 2
1892	24,07,64,080	16,07,64,080	—	—	—	(c)8,00,00,000	—	8,00,00,000	66 8	—	33 2
1893	26,40,18,200	18,40,18,200	—	—	—	8,00,00,000	—	8,00,00,000	69 7	—	30 3
1894	30,41,16,310	22,41,16,310	—	—	—	8,00,00,000	—	8,00,00,000	73 7	—	26 3
1895	30,70,00,100	22,70,00,100	—	—	—	8,00,00,000	—	8,00,00,000	73 9	—	26 1
1896	25,94,06,990	17,94,06,990	—	—	—	8,00,00,000	—	8,00,00,000	69 2	—	30 8
1897	23,75,33,070	13,75,33,120	—	—	—	(d)9,99,99,950	—	9,99,99,950	57 9	—	42 1
1898	24,76,40,490	14,50,86,340	25,54,200	—	25,54,200	9,99,99,950	—	9,99,99,950	58 6	1	40 4
1899	28,20,32,760	15,15,01,090	3,05,31,720	—	3,05,31,720	9,99,99,950	—	9,99,99,950	53 7	10 8	35 5
1900	28,73,72,255	5,23,72,122	11,25,00,187	2,25,00,000	13,50,00,187	9,99,99,946	—	9,99,99,946	18 2	47	34 8
1901	29,86,59,000	11,19,81,278	8,66,77,776	—	8,66,77,776	9,99,99,946	—	9,99,99,946	37 5	29	33 5
1902	31,66,12,945	11,12,54,180	10,53,58,819	—	10,53,58,819	9,99,99,946	—	9,99,99,946	35 1	33 3	31 6
1903	35,72,36,070	10,93,42,656	14,78,93,468	—	14,78,93,468	9,99,99,946	—	9,99,99,946	30 6	41 4	28
1904	38,21,16,540	12,02,73,091	16,18,43,503	—	16,18,43,503	9,99,99,946	—	9,99,99,946	31 4	42 4	26 2*
1905	39,17,59,870	13,06,57,840	16,11,02,084	—	16,11,02,084	9,99,99,946	—	9,99,99,946	33 4	41 1	25 5
1906	44,65,65,810	16,34,95,990	5,73 94,868	10,56,75,006	16,30,69,874	(e)9,99,99,946	2,00,00,000	11,99,99,946	36 6	36 5	26 9
1907	46,95,19,260	18,93,36,703	5,49,57,611	10,53,75,000	16,03,32,611	9,99,99,946	2,00,00,000	11,99,99,946	40 3	34 1	25 6
1908	46,88,50,345	25,25,82,784	4,06,92,615	5,55,75,000	9,62,67,615	9,99,99,946	2,00,00,000	11,99,99,946	53 9	20 5	25 6
1909	45,48,79,505	31,20,28,350	3,51,209	2,25,00,000	2,28,51 209	9,99,99,946	2,00,00,000	11,99,99,946	68 6	5	26 4
1910	54,40,84,250	29,35,58,565	9,30,25,739	3,75,00,000	13,05,25,739	9,99,99,946	2,00,00,000	11,99,99,946	54	24	22
1911	54,99,05,815	26,23,73,602	9,27,97,267	7,56,75,000	16,84,72,267	9,99,99,946	2,00,00,000	11,99,99,946	47 7	30 6	21 8†
1912	61,36,25,095	15,57,08,887	23,33,16,262	8,55,00,000	31,88,16,262	(f)9,99,99,946	4,00,00,000	13,99,99,946	25 4	52	22 8‡
1913	68,97,78,240	16,45,27,496	29,37,50,798	9,15,00,000	38,52,50,798	9,99,99,946	4,00,00,000	13,99,99,946	23 9	55 8	20 3

* At this date the total amount of the Reserve exceeded the total Note Circulation by Rs 1,50,000, representing amount due on Bills drawn by one Circle on another

† " " " " " " Rs 9,40,000, representing amount due on Bills drawn by one Circle on another

‡ " " " " " " Rs 9,00,000, representing amount due on Bills drawn by one Circle on another

(a) Act XIX of 1861 authorised the holding of a portion of the Reserve not exceeding 4 crores of rupees in Government securities

(b) Act III of 1872 authorised an increase of the invested portion of the Reserve to 6 crores

(c) Act III of 1890 authorised an increase of the invested portion of the Reserve to 8 crores

(d) Act XXI of 1896 authorised an increase of the invested portion of the Reserve to 10 crores

(e) Act III of 1905 authorised an increase of the invested portion of the Reserve to 12 crores, of which 2 crores might be securities of the United Kingdom

(f) Act VII of 1911 authorised an increase of the invested portion of the Reserved to 14 crores, of which 4 crores might be securities of the United Kingdom

Table No II

GROSS AND ACTIVE CIRCULATION OF CURRENCY NOTES, 1862 TO 1912

Year (Last day in March)	Gross Circulation	In Government Treasuries	Elsewhere	Notes held by Presidency Banks at Head Offices	Notes in active circulation among the Public
	1	2	3 = Col 1 − Col 2	4	5 = Col 1 − (Col 2 + Col 4)
	Rs	Rs	Rs	Rs	Rs
1862	3,69,00,000	16,70,600	3,52,29,400		
1863	4,92,60,000	44,86,110	4,47,73,890		
1864	5,35,00,000	39,26,650	4,95,73,350		
1865	7 42 73,270	58,14,140	6,84 59,130		
1866	6,89,84,810	69,87,190	6,19,97,620		
1867	8,09,08,680	60,31,390	7 48,77,290		
1868	9,06,95,690	71,23,150	8,35,72,540		
1869	9,95,92,960	62,98,040	9,32,94,920		
1870	10,47,28,830	80,99,460	9,66,29,370		
1871	10,43,72,910	99,13 170	9,44,59,740		
1872	13,16,79,170	2,20,83,790	10,95,95,380		
1873	11,13,50 610	1,85,56,780	9,27,93,830		
1874	9,24,97,610	1,27,63,140	7,97,34,470		
1875	11,23,64,380	1,58,44,910	9,65,19,470		
1876	10,99,99,270	1,73,45,770	9,26,53,500		
1877	11,61,78,110	1,35,67,760	10,26,10,350	Figures for years before 1893 not available at India Office	
1878	13,57,47,500	2,56,88,490	11,00,59,010		
1879	11,42 36,450	1,71,68,700	9,70,67,750		
1880	12,35 77,270	1,32,60,850	11 03,16,420		
1881	13,40,17,360	1,80,55 950	11,59,61 410		
1882	13,90,71 780	3,39,95,040	10,50 76,740		
1883	14,50,64,080	3,39,09,410	11,11,54,670		
1884	12,75,65,410	2,26,06,540	10,49,58,870		
1885	14,57,69,040	1,84,67,210	12,73,01,830		
1886	14,17,32,720	1,85,93,400	12,31,39,320		
1887	13,87,68,360	1,97,87,880	11,89,80,480		
1888	16,42,43,790	1,92,86,560	14,49,57,230		
1889	15,73,78,130	2,47,48,980	13,26,29,150		
1890	15 77,17,800	2,45,79,940	13,31,37,860		
1891	25,69,04,490	5,31,15,320	20,37,89,170		
1892	24,07,64,080	5,35,09,840	18,72,54,240		
1893	26,40,18,200	4,60,17,970	21,80,00,230	2,32,00,000	19,48,00,230
1894	30,41,16,310	11,56,70,570	18,84,45,740	2,00,00,000	16,84,45,740
1895	30,70,00,100	9,03,05,650	21,66,94,450	2,61,00,000	19,05,94,450
1896	25,94 06,990	4,07,04,640	21,87,02,350	1,77,00,000	20,10,02,350
1897	23,75,33,070	2,89,04,320	20,86,28,750	2,10,00,000	18,76,28,750
1898	24,76,40,490	5,08,13,080	19,68,27,410	1,82,00,000	17,86 27,410
1899	28,20,32,760	5,25,70,020	22,94,62,740	2,57,00,000	20,37,62,740
1900	28 73,72,255	4,00,93,100	24,72,79,155	2,63,00,000	22,09 79,155
1901	29,86,59,000	6,07,97,045	23,78,61,955	1,87,00,000	21,91,61,955
1902	31,66 12,945	7,41,84,770	24,24,28,175	2 02,00,000	22,22,28,175
1903	35 72,36,070	6,85,38,765	28,86,97,305	4,06,00,000	24,80,97,305
1904	38,21,16,540	6,66,69,520	31,54,47,020	3,45,00,000	28,09,47,020
1905	39 17,59,870	5 44,77,990	33,72,81,880	5,27,00,000	28,45,81,880
1906	44,65,65,810	6,76,41,930	37,89,23,880	5,27,00,000	32,62,23,880
1907	46,95,19,260	5,75,23,285	41,19,95,975	4,75,00,000	36,44,95,975
1908	46 88 50,345	8,24,21,480	38,64,28,865	6,04,00,000	32,60,28,865
1909	45 48 79,505	6,25 70,540	39 23,08,965	4,28 00,000	34,95 08,965
1910	54,40 84,250	7,89,77,730	46,51,06,520	6,53,00 000	39,98,06,520
1911	54,99,05,815	9,30,83,585	45,68 22,230	5 51,00,000	40,17,22,230
1912	61,36 25,095	8,12,00,000	53,24 25,095	8,63,00,000	44,61,25,095

Table No III

GOLD IN PAPER CURRENCY RESERVE AND TREASURIES OF THE GOVERNMENT OF INDIA

RECEIPTS AND ISSUES (IN THOUSANDS OF POUNDS) IN EACH MONTH, 1899–1900 TO 1910–11, AND IN EACH WEEK, 1911–12 AND 1912–13

Part I—1899–1900 *to* 1910–11

Month	Receipts	Issues	Net Receipt + Net Issue −	Receipts	Issues	Net Receipt + Net Issue −	Receipts	Issues	Net Receipt + Net Issue −
	1899-1900			1900-01			1901-02		
April	258	—	+ 258	904	440	+ 464	372	943	− *571*
May	11	—	+ 11	1,032	586	+ 446	563	155	+ 408
June	89	—	+ 89	1,130	563	+ 567	218	286	− *68*
July	69	—	+ 69	639	881	− *242*	263	282	− *19*
August	176	—	+ 176	473	795	− *322*	207	290	− *83*
September	117	—	+ 117	587	447	+ 140	345	166	+ 179
October	749	—	+ 719	848	1,530	− *682*	452	166	+ 286
November	622	—	+ 622	582	927	− *345*	219	1,179	− *960*
December	613	—	+ 613	705	1,119	− *414*	500	1,002	− *502*
January	863	23	+ 840	1,790	1,209	+ 581	499	150	+ 349
February	1,352	28	+ 1,324	882	917	− *35*	570	176	+ 394
March	1,191	328	+ 863	601	1,414	− *813*	2,583	189	+ 2,394
Total	6,110	379*	+ 5,731	10,173	10,828	− *655*	6,791	4,984‡	+ 1,807
Total, exclusive of withdrawals on Government account (see foot-notes)	6,110	379	+ 5,731	10,173	6,328†	+ 3,845	6,791	2,982§	+ 3,809
Monthly average	509	32	+ 477	848	527	+ 321	566	249	+ 317

Month	Receipts	Issues	Net Receipt + Net Issue −	Receipts	Issues	Net Receipt + Net Issue −	Receipts	Issues	Net Receipt + Net Issue −
	1902-03			1903-04			1904-05		
April	274	274	—	163	521	− *358*	621	582	+ 39
May	153	703	− *550*	214	421	− *207*	957	327	+ 630
June	120	186	− *66*	350	272	+ 78	1,296	336	+ 960
July	142	321	− *182*	428	247	+ 181	396	345	+ 51
August	91	278	− *187*	818	301	+ 517	584	908	− *324*
September	95	188	− *93*	811	292	+ 519	812	2,446	− *1,634*
October	224	262	− *38*	833	1,280	− *447*	302	323	− *21*
November	266	227	+ 39	947	1,123	− *176*	855	316	+ 539
December	847	278	+ 569	814	842	− *28*	1,455	1,950	− *495*
January	1,343	200	+ 1,143	1,588	2,320	− *732*	1,230	1,381	− *151*
February	1,467	261	+ 1,206	2,025	879	+ 1,146	1,212	527	+ 685
March	1,427	250	+ 1,177	828	393	+ 435	557	930	− *373*
Total	6,449	3,431	+ 3,018	9,819	8,891	+ 928	10,277	10,371	− *94*
Total, exclusive of withdrawals on Government account (see foot notes)	6,449	2,931‖	+ 3,518	9,819	4,630*a*	+ 5,189	10,277	4,771*b*	+ 5,506
Monthly average	437	244	+ 293	818	386	+ 432	856	397	+ 459

* The first issue was made on 15th January 1900
† 4,500,000*l* was shipped to the Secretary of State
‡ Particulars from April 1899 to May 1901 taken from monthly returns
§ 2,002,000*l* was shipped to Secretary of State
‖ 500,000*l* was shipped to Secretary of State
a 4,261,000*l* was shipped to Secretary of State
b 5,600,000*l* was shipped to Secretary of State

Month	Receipts	Issues	Net Receipt + Net Issue −	Receipts	Issues	Net Receipt + Net Issue −	Receipts	Issues	Net Receipt + Net Issue −
	1905-06			1906-07			1907-08		
April	432	394	+ 38	334	1,054	— 720	547	961	— 414
May	396	487	— 91	363	706	— 343	1,486	1,144	+ 342
June	295	443	— 148	362	561	— 199	1,477	1,259	+ 218
July	576	1,454	— 878	294	586	— 292	1,256	855	+ 401
August	460	1,471	— 1,011	520	541	— 21	949	872	+ 77
September	657	1,403	— 746	1,557	539	+ 1,018	695	834	— 139
October	388	419	— 31	864	502	+ 362	597	853	— 256
November	925	1,567	— 642	1,228	709	+ 519	729	1,274	— 545
December	827	681	+ 146	1,028	697	+ 331	787	1,174	— 387
January	644	1,531	— 887	834	714	+ 120	852	1,088	— 236
February	396	832	— 436	442	889	— 447	1,300	1,252	+ 48
March	257	1,230	— 973	459	933	— 474	875	989	— 114
Total	6,253	11,915	— 5,662	8,285	8,431	— 146	11,550	12,555	— 1,005
Total, exclusive of withdrawals on Government account (*see* footnote)	6,253	5,915*	+ 338	8,285	8,431	— 146	11,550	12,555	— 1,005
Monthly Average	521	493	+ 28	690	702	— 12	962	1,046	— 84

Month	Receipts	Issues	Net Receipt + Net Issue −	Receipts	Issues	Net Receipt + Net Issue −	Receipts	Issues	Net Receipt + Net Issue −
	1908-09			1909-10			1910-11		
April	626	1,177	— 551	61	79	— 18	313	656	— 343
May	555	1,193	— 638	44	53	— 9	173	815	— 642
June	523	902	— 379	43	39	+ 4	170	1,112	— 942
July	827	820	+ 7	32	43	— 11	286	862	— 576
August	367	726	— 359	21	33	— 9	219	883	— 664
September	347	863	— 516	10	20	— 10	270	713	— 443
October	279	595	— 316	11	21	— 10	276	664	— 388
November	217	290	— 73	26	22	+ 4	1,676	1,052	+ 624
December	151	149	+ 2	1,916	98	+ 1,818	973	1,210	— 237
January	129	214	— 85	3,749	257	+ 3,492	2,808	1,031	+ 1,777
February	129	139	— 10	875	401	+ 474	2,171	1,067	+ 1,104
March	88	106	— 18	1,242	623	+ 619	2,018	1,008	+ 1,010
Total	4,208	7,174	— 2,966	8,033	1,689	+ 6,344	11,353	11,073	+ 280
Total, exclusive of withdrawals on Government account (*see* footnote)	4,208	6,934†	— 2,726	8,033	1,689	+ 6,344	11,353	11,073	+ 280
Monthly average	351	578	— 227	669	141	+ 528	946	923	+ 23

* 6,000,000*l* was shipped to Secretary of State

† 240,248*l* 12*s* 4*d*, light sovereigns and bullion shipped to Secretary of State

Part II—1911–12 *and* 1912–13

—	Receipts	Issues	Net Receipt + Net Issue −	Receipts	Issues	Net Receipt + Net Issue −
		1911–12			1912–13	
7th April	329	293	+ 36	439	469	− *30*
15th April - - -	402	378	+ 24	575	503	+ 72
22nd April - - -	478	238	+ 240	424	454	− *30*
30th April - - -	206	239	− *33*	684	410	+ 244
7th May - -	381	253	+ 128	716	531	+ 185
15th May -	221	373	− *152*	607	513	+ 94
22nd May - - -	476	385	+ 91	258	481	− *223*
31st May - -	235	335	− *100*	740	679	+ 61
7th June - -	308	327	− *19*	668	573	+ 95
15th June - -	147	308	− *161*	1,109	559	+ 550
22nd June - -	141	182	− *41*	614	440	+ 174
30th June -	260	243	+ 17	1,128	353	+ 775
7th July - -	140	313	− *173*	587	427	+ 160
15th July - -	135	247	− *112*	510	320	+ 190
22nd July - -	175	202	− *27*	372	227	+ 145
31st July - -	148	172	+ 276	491	260	+ 234
7th August - -	428	257	+ 171	918	343	+ 575
15th August -	138	249	− *111*	183	289	− *106*
22nd August - -	152	154	− *2*	668	207	+ 461
31st August - -	139	182	− *43*	264	234	+ 30
7th September - -	205	250	− *45*	740	351	+ 389
15th September -	92	197	− *105*	152	225	− *73*
22nd September - -	280	157	+ 123	480	239	+ 241
30th September - - -	208	187	+ 21	283	269	+ 14
7th October - - -	287	234	+ 53	502	362	+ 140
15th October - -	557	283	+ 274	647	304	+ 343
22nd October -	279	235	+ 44	241	364	− *123*
31st October - - -	959	216	+ 743	428	2,269*	− *1,841*
7th November - -	211	327	− *116*	255	552*	− *297*
15th November -	1,248	305	+ 943	274	495	− *221*
22nd November - -	105	306	− *201*	187	374	− *187*
30th November - - -	381	242	+ 139	423	433	− *10*
7th December - -	102	299	− *197*	269	591	− *322*
15th December - - -	306	259	+ 47	543	454	+ 89
22nd December - -	654	370	+ 284	578	600	− *22*
31st December - - -	386	227	+ 159	1,189	583	+ 606
7th January - - -	733	423	+ 310	1,276	553	+ 723
15th January - -	1,447	426	+ 1,021	700	574	+ 126
22nd January - - -	874	481	+ 393	1,090	508	+ 582
31st January - -	1,130	480	+ 650	1,459	806	+ 653
7th February - - -	1,291	572	+ 719	833	587	+ 246
15th February - -	1,362	638	+ 724	594	596	− *2*
22nd February - - -	1,079	316	+ 763	462	454	+ 8
29th February - -	876	318	+ 558	784	334	+ 450
7th March - - -	616	364	+ 252	579	871	− *292*
15th March - - -	1,013	387	+ 626	561	1,015*	− *484*
22nd March - -	787	334	+ 453	293	432	− *139*
31st March - - -	1,115	454	+ 661	552	671	− *119*
Total - - -	23,922	14,617	+ 9,305	28,332	24,198	+ 4,134
Total, exclusive of withdrawals on Government account (*see* footnote	23,922	14,617	+ 9,305	28,332	21,815*	+ 6,517
Monthly average -	1,993	1,218	+ 775	2,361	1,818	+ 543

* 2,382,613*l* light weight sovereigns were shipped to Secretary of State 1,875,700*l* 10*s* on 26th October 1912, 53,887*l* on 6th November 1912, and 453,025*l* 10*s* on 15th March 1913

Table No IV

Amount of Silver held in Reserves, and New Coinage, 1894–95 to 1912–13

(1) Year	(2) Coined Silver held at commencement of Year: Currency	Gold Standard Reserve	Total	(3) Coined Silver held at end of Year: Currency	Gold Standard Reserve	Total	(4) Net Increase (+) or Decrease (−) in Amount held	(5) Total coinage, less recoinage	(6) Remarks
1894–95	22,41	—	22,41	22,70	—	22,70	+ 29	3 04	Figures in columns (2) to (4) inclusive relate to whole rupees only Those in column (5) include in addition the amount of small silver coinage
1895–96	22,70	—	22,70	17,97	—	17 97	− *4,73*	24	
1896–97	17,97	—	17,97	13,75	—	13 75	− *4,22*	− *6 80*	
1897–98	13,75	—	13,75	14,51	—	14,51	+ 76	37 88	
1898–99	14,51	—	14 51	15,15	—	15,15	+ 64	37 25	
1899–1900	15,15	—	15,15	5 24	—	5,24	− *9,91*	1,32 08	
1900–01	5,24	—	5,24	9,42	—	9 42	+ 4,18	16,93 65	
1901–02	9,42	—	9,42	11,13	—	11,13	+ 1,71	3,82 40	
1902–03	11,13	—	11,13	10 93	—	10,93	− *20*	3,24 98	
1903–04	10,93	-	10,93	11,49	—	11,49	+ 56	11,15 53	
1904–05	11,49	—	11,49	11,36	—	11,36	− *13*	7,81 20	
1905–06	11,36	—	11,36	13,58	—	13,58	+ 2 22	16,87 67	
1906–07	13,58	—	13,58	13,70	6,00	19,70	+ 6 12	23,37 81	
1907–08	13,70	6,00	19,70	25,18	6,00	31,18	+ 11,48	15 69 16	
1908–09	25,18	6,00	31,18	31,12	15,88	47,00	+ 15,82	24 51	
1909–10	31,12	15,88	47,00	29,28	3,80	33,08	− *13,92*	11 39	
1910–11	29,28	3 80	33,08	26,06	2,90	28,96	− *4,12*	19 94	
1911–12	26,06	2,90	28,96	15,40	2,90	18,30	− *10,66*	—	
1912–13	15,40	2,90	18,30	16,45	6,00	22,45	+ 4,15	15 75 00	*Estimated
							Total	117,26 93	
								4	Difference between stocks held 1st April 1894 and 1st April 1913
								117,22 93	
								617 21	

The stock of rupees in Paper Currency Reserve at 1st April 1894 was 2,241 lakhs The stock in Paper Currency Reserve and Gold Standard Reserve combined at 31st March 1913 was 2,245 lakhs Thus the average annual addition from new coinage required (*see* col 5) to keep up a stock of 2,241 lakhs appears to be 617 21 lakhs $\left(\frac{117{,}22\ 93}{19}\right)$

Note II

(*See paragraph 6 of Memorandum, p 240*)

Increases in invested portion of Paper Currency Reserve sanctioned in 1904 and 1911 Correspondence between Government of India and Secretary of State

Letter from the Government of India, No 295, dated 18th August 1904, to the Secretary of State for India

Simla,
18th August 1904

Sir,

We have the honour to submit, for your favourable consideration, a proposal to amend Section 19 of the Indian Paper Currency Act, 1882 (XX of 1882), so as to raise from ten to twelve crores of rupees, the amount of the Paper Currency Reserve which may be invested, and to permit of the additional two crores being held by the Secretary of State in London in gold securities of the Government of India or of the United Kingdom

2 The maximum limit of the invested portion of the Reserve was raised in 1896 from eight to ten crores, and, acting on the sanction accorded in Lord George Hamilton's telegram of the 17th of December 1896, Lord Elgin's Government increased the investment in that month to the full amount permissible by law

3 Since that time there has been a large increase in the circulation of currency notes, as the following figures show The average, minimum, and maximum of the total circulation for the years 1896-97 to 1903-04 have been (in lakhs of rupees) —

	1896 97	1897-98	1898 99	1899-1900	1900 01	1901 02	1902 03	1903 04
Average	25,98	24,24	25,63	27,96	28,88	30,03	33,74	36,41
Minimum	23,58	22,86	23,25	26,26	27,90	27,68	31,25	33,94
Maximum	29,59	24,76	28,20	29,27	30,78	31,86	35,72	38,21

Excluding the notes held in the Government Reserve Treasuries and at the head offices of the Presidency Banks, these figures become modified as follows —

	1896 97	1897 98	1898 99	1899-1900	1900-01	1901 02	1902 03	1903 04
Average	21,40	20,35	20,79	23,09	23,86	23,16	25,74	28,70
Minimum	20,57	19,44	19,43	21,91	22,85	22,39	23,93	27,44
Maximum	22,38	21,20	22,49	24,41	25,02	24,40	27,35	30,30

4 It will be seen that the average net circulation has risen in these seven years from 21 4 to 28 7 crores, or by 34 per cent, and that an increase of two crores in the invested portion of the Reserve would raise the latter to less than 42 per cent of the average net circulation of the past year We do not think it safe to assume that the high level of that year will invariably be

maintained, but in view of the fact that the minimum net circulation has not fallen below 22,39 lakhs in the last four years, we are of opinion that the proposed increase of the investment is fully justified

5 We have consulted the Presidency Banks and the Chambers of Commerce on the subject, and we enclose a copy of their replies It will be seen that, with the solitary exception of the Bank of Bombay, they are unanimously of opinion that the investment can safely be increased to the extent proposed We do not think it necessary to dwell on the objections raised by the Bank of Bombay, which are based on the theory that the rupees in India are, or are in danger of becoming, redundant We have provided as far as possible against this danger by crediting the profits of coinage to the Gold Reserve Fund, and the steady growth of that fund affords, in our opinion, the best guarantee against the depreciation of the rupee The argument of the Bombay Bank that gold should be held in India instead of being invested appears to be aimed against the investment of the Gold Reserve Fund rather than against the proposal now under discussion, and, since the principle of investment has been accepted in the case of that fund, (to the extent of a substantial portion thereof, though not necessarily to the whole) it seems to us to be unprofitable to discuss it in connection with the minor question of the investment of the Currency Reserve

6 We turn therefore to the question of making the investment in gold securities Different opinions have been expressed on this point, and some of the bodies consulted appear to have been influenced by considerations other than the security of the Reserve and the convertibility of the note issue We hold strongly that these are the chief points to be considered, and that it would not be proper to admit into the discussion such considerations as the relief of holders of our 3 per cent rupee loan or the improvement of our credit as borrowers in India or in London

7 The securities selected for investment should, we think, be such as would be readily realizable if it should become necessary to convert them into coin Such a necessity is only likely to arise in the event on a serious financial or political crisis occurring in India, and in that case our rupee securities would inevitably be depreciated and difficult to sell, while it is probable that sterling securities would not be so seriously affected, owing to the greater capacity and solidity of the London market

8 The possession of sterling securities would carry the further advantage that the proceeds would be receivable in London, *i e*, in the market in which, if more rupees were required, we should have to buy silver, and in which also, if gold were required for strengthening exchange, the demand would make itself felt

9 Lastly, in the event of our being compelled to sell any of the securities held in the Currency Reserve, it would be convenient to have two or more classes of stock to choose from, and this power of selection would probably reduce the loss on the transaction

10 For these three reasons we consider that the investment in sterling instead of rupee securities would be distinctly advantageous

11 In the Despatch recommending the last increase in the investment of the Currency Reserve Lord Elgin's Government expressed a doubt whether, in considering a proposal put forward solely from the point of view of the Currency Reserve, it was right to be influenced by the possible effect which the measure might have upon the exchange value of the rupee We are emphatically of opinion that the primary and essential function of the Currency Reserve is to secure the convertibility of notes into current coin, and that nothing whatever should be allowed to interfere with the arrangements best suited for that purpose But so long as this condition is scrupulously satisfied, we see no reason why, in the management of the

* No 131, dated the 2nd June 1896

Reserve, we should not have regard to any incidental advantage which may arise therefrom. In the years which have elapsed since Lord Elgin's despatch was written it has been found that the Currency Reserve forms an important, if not an essential, part of the machinery by which the par of exchange between the sovereign and the rupee is maintained. The maintenance of a stock of both coins in the Reserve enables us to exchange them freely in India, and if a demand for gold for export should arise, owing to a temporary weakening of exchange, we should be able to meet it to a not inconsiderable extent from the Currency Reserve without depressing the sterling value of the rupee and without drawing upon the Gold Reserve Fund. Conversely the stock of rupees in the Reserve enables us to absorb redundant sovereigns and to retard the undue appreciation of the rupee until silver can be obtained from England for coinage.

12. In determining, therefore, the amount of coin which it is advisable to retain in the Currency Reserve, we are of opinion that it is not improper to take into account this secondary function which the Reserve performs in providing a margin against temporary fluctuations of exchange, and we have considered the question from this point of view. It will be observed that the Banks of Bengal and Bombay have been influenced by similar considerations: the approval of the former to the increase of the investment is subject to the proviso that the proportion of the gold held in the Reserve should be limited and not allowed to rise unduly to the prejudice of the silver reserve, while the view of the latter Bank is, as observed above, that the possession of a large sum of gold in the Reserve will strengthen the position as regards stability of exchange.

13. The proportion of silver in the Reserve which we have found by experience to be sufficient at the opening of the busy season, when the demand for rupees sets in, is approximately one-third of the total note circulation, and we have recently laid† before you a suggestion to supplement the coined rupees by a special reserve of three crores worth of silver. The average gross note circulation in the past year was 36·41 crores, and if a silver reserve were held against this, consisting of one-third (12·14 crores) in rupees *plus* 3 crores uncoined, an investment of 12 crores would leave a margin of $9\frac{1}{4}$ crores to be held in gold. If the average circulation of the past four years be taken, the margin available for gold would still be $6\frac{1}{4}$ crores. We consider that the margin thus indicated is ample, and that a larger proportion of gold is not at present required in this country.

† Despatch No. 121, dated the 28th April 1904.

14. On the above grounds we ask your permission to introduce a Bill during the next Calcutta season to give effect to the proposal stated in the first paragraph of this despatch. We propose to take up the necessary legislation in Calcutta, firstly, because it is desirable to allow the measure to be fully discussed by the representatives of commercial interests, and, secondly, because we have in hand the preparation of a Bill for the simplification and consolidation of the Paper Currency Act, which will probably have to be referred for your orders and will in that case not be ripe for introduction until the Calcutta session. We hope to be able to deal with all pending matters relating to the Currency Reserve in one Bill, but, in view of the importance of the present proposal, we have thought it advisable to refer it to you separately.

We have, &c.,

(Signed) AMPTHILL.
KITCHENER.
E. FG. LAW.
E. R. ELLES.
A. T. ARUNDEL.
H. E. RICHARDS.

Enclosure No 1

Letter to the Chambers of Commerce and the Presidency Banks, No 2632A, dated the 29th April 1904, and enclosures

Simla,
29th April 1904

SIR,

I am directed to request that the $\frac{\text{Chamber of Commerce}}{\text{Directors of the Bank of}}$ will favour the Government of India with an expression of $\frac{\text{its}}{\text{their}}$ opinion on a proposal, which is under the consideration of the Governor-General in Council, to take power by legislation to increase the invested portion of the Paper Currency Reserve from ten to twelve crores of rupees

2 The history of the invested Reserve, and the considerations which have from time to time moved the Government of India to increase it, are set forth in Mr Finlay's letters No 6468, dated 23rd December 1889, and No 5318A, dated 7th November 1895, of which copies are enclosed for reference It has throughout been the policy of the Government of India to fix the limit for investment well within the amount of notes which has been found by experience to be necessary for the monetary transactions of the country and which may therefore confidently be expected to be always outstanding The Governor-General in Council has approached the present proposal with the same guiding principle in view

3 Tables are appended to this letter showing month by month from the year 1887-88 the gross circulation of currency notes in India, and also, from the year 1889-90, the net circulation, excluding the amounts held in the Reserve Treasuries of the Government and at the head offices of the Presidency Banks It is to the latter figures that the Government of India chiefly look in estimating the permanent circulation among the public From the following analysis of these figures the proposed increase of the investment to 12 crores would appear to be fully justified

4 Prior to the last increase of the investment, which was made in December 1896, the average and minimum net circulation had been as follows —

—	Average (Lakhs)	Minimum (Lakhs)
1893-94	19,23	18,24
1894-95	20,21	18,64
1895-96	22,11	20,83
1896 (8 months)*	21,71	21,37
Average	20,73	19,77

* April to November

The corresponding statistics for the last four years are given below —

—	Average (Lakhs)	Minimum (Lakhs)
1900-01	23,86	22,85
1901-02	23,16	22,39
1902-03	25,74	23,93
1903-04	28,70	27,44
Average	25,36	24,15

5 The sum of 10 crores of rupees to which the investment was raised in 1896 amounted to 48 24 per cent on the previous average net circulation as worked out above, and to 50 58 per cent on the average minimum of such circulation A further increase now to 12 crores would bring the investment up to 47 32 per cent on the more recent average of the net circulation and to

49 69 per cent on the average minimum The present circumstances correspond therefore very closely to those which prevailed in 1896, and the reasons which were put forward for an increase of the investment in that year, and which were subsequently justified by results, appear to the Government of India to be equally operative now, and fully to justify a further increase The case for a further investment of two crores is even stronger at the present time than it was in 1896 because the net circulation has lately shown a very rapid tendency to increase, and this increase may be taken as an index of a growth of the monetary transactions of the country and consequently of the minimum amount of notes which will be necessary for such transactions

6 Moreover, in 1896 some doubts were expressed as to the effect on the stability of exchange of a measure which would result in increasing the rupee circulation by two crores At the present time the stock of gold in the Currency Reserve is so high that the Government of India could view with equanimity such an addition to the silver currency

7 In this connection I am to point out that the gold held in the Reserve affords a means of effecting the proposed investment without altering the volume of the rupee currency, and I am to say that it has been suggested to the Government of India that it would be desirable for some reasons to make the investment, not in rupee securities, but in sterling securities, either of the British Government or of the Government of India The Government of India would be glad to learn whether $\frac{\text{the Chamber has}}{\text{Your Directors have}}$ any observations to offer on this suggestion

8 As on former occasions, if it should be decided that an increase in the amount of the investment may safely be made, care would be taken to exercise the power only on some convenient opportunity when it would be possible to carry out the operation without prejudicing the market in Government securities

I have &c,
R A Mant,
Deputy Secretary to the Government of India

I —Statement showing the Circulation of Paper Currency for all India
(In lakhs of Rupees)

Month	1887-88	1888-89	1889-90	1890-91	1891-92	1892-93	1893-94	1894-95	1895-96	1896-97	1897-98	1898-99	1899-1900	1900-01	1901-02
April	14,02	16,54	15,83	17,42	25,71	23,96	24,22	30,64	30,76	25,92	23,91	24,28	28,02	27 90	28,59
May	13,90	17,03	15,77	17,65	26,18	25,28	24,99	31,13	30,17	26 89	22 86	23,25	28,25	28,65	29,08
June	14,08	17,69	16 24	17,94	26,81	26,77	26,49	31,49	30,86	27,78	23,39	24,92	29 14	30 41	31,82
July	15,48	18,06	16,50	19,18	27,04	28,46	27,05	31,20	32,43	29,59	24,76	26 24	29 27	30 78	31,69
August	15,66	17,69	16,15	20,50	26,93	29,06	28,30	31,57	31,54	28,23	24 60	26 32	28 76	28,44	30,88
September	16 78	16,94	16,14	22,97	26,24	28,97	28,98	31,23	30,37	26,89	24 74	25 64	27 63	28 31	30,55
October	17,78	16,74	16 63	25,66	25,99	28,94	28,59	31,81	29 93	25 08	24 59	25 84	27,67	28 30	31,86
November	18,61	15,50	16 67	26,54	25,88	28,83	29,62	32,36	28,39	24 53	24 65	25,79	27 33	28 35	30,60
December	17,69	15,15	15,47	27,04	24 85	26 05	30,13	31,45	27,82	25,26	23,79	25,20	26,26	28,06	28,07
January	17,08	15 28	16,29	27,66	22,62	26,61	30,52	29 50	27,12	24,27	24,32	25,67	27,18	29 37	27,93
February	16,15	14,83	16 37	26,42	22,90	25,86	30,20	30,35	25,99	23,58	24 53	26,24	27,27	28 10	27,68
March	16,42	15,74	15,77	25,69	24 08	26,40	30,41	30,70	25,94	23,75	24,76	28,20	28,74	29,87	31,66
Average	16,16	16,43	16,15	22,89	25,44	27,10	28,29	31,11	29,28	25,98	24,24	25,63	27,96	28,88	30,03
Maximum	18,61	18,06	16,67	27,66	27,04	29,06	30,52	32,36	32,43	29,59	24,76	28,20	29 27	30,78	31,86
Minimum	13,90	14,83	15,47	17 42	22,62	23,96	24,22	29,50	25,94	23,58	22,86	23,25	26,26	27,90	27,68

I.—Statement showing the Circulation of Paper Currency excluding amounts held by the Government Reserve Treasuries and by the Presidency Banks at their Head Office. (*In lakhs of Rupees.*)

Month	1889-90	1890-91	1891-92	1892-93	1893-94	1894-95	1895-96	1896-97	1897-98	1898-99	1899-1900	1900-01	1901-02
April	13,20	13,71	17,28	18,72	20,84	18,64	21,81	21,96	20,33	19,78	22,50	23,61	23,13
May	13,39	13,96	17,41	19,47	19,99	19,00	21,34	21,53	19,66	20,10	22,08	23,67	22,83
June	13,40	13,66	17,90	19,97	19,49	19,09	20,83	21,61	19,75	19,43	22,19	23,85	23,31
July	13,44	13,73	17,37	20,59	19,19	19,10	21,49	21,37	20,20	20,16	21,94	22,95	22,68
August	12,95	14,48	17,61	20,49	18,96	19,19	21,58	21,75	20,67	20,37	22,63	23,15	22,45
September	13,20	15,13	17,69	21,66	19,09	19,55	22,37	21,51	21,16	20,42	22,69	23,84	22,39
October	13,51	15,88	19,17	22,12	18,83	20,12	23,04	22,38	21,08	20,69	23,87	24,12	22,86
November	13,31	15,67	19,01	22,30	18,84	20,65	22,84	21,60	21,20	21,31	23,50	25,02	23,34
December	13,69	16,59	19,39	22,40	19,66	21,82	23,02	20,99	20,73	21,47	23,83	24,58	23,97
January	13,62	16,92	18,21	21,76	19,19	22,15	22,52	20,80	20,18	21,53	23,54	23,62	23,28
February	13,33	17,51	18,44	21,33	18,24	21,65	22,40	20,57	19,44	21,90	23,77	23,65	23,35
March	13,50	17,62	18,45	21,68	18,19	21,31	22,14	20,76	19,83	22,49	24,11	24,14	24,40
Average	13,38	15,40	18,16	21,04	19,23	20,21	22,11	21,10	20,35	20,79	23,09	23,86	23,16
Maximum	13,69	17,62	19,39	22,40	20,84	22,15	23,04	22,38	21,20	22,49	24,41	25,02	24,40
Minimum	12,95	13,66	17,28	18,72	18,24	18,64	20,83	20,57	19,44	19,43	21,94	22,85	22,39

No. I.—Statement showing the Circulation of Paper Currency for all India. (*In lakhs of Rupees.*)

Month	1902-03	1903-04
April	31,25	33,94
May	31,56	35,13
June	33,59	36,57
July	35,20	37,57
August	35,58	37,70
September	34,65	36,61
October	34,36	37,00
November	34,26	36,98
December	33,74	34,43
January	32,12	35,47
February	32,85	37,29
March	35,72	38,21
Average	33,74	36,41
Maximum	35,72	38,21
Minimum	31,25	33,94

No. II.—Statement showing the Circulation of Paper Currency excluding amounts held by the Government Reserve Treasuries, and by the Presidency Banks at their Head Offices. (*In lakhs of Rupees.*)

Month	1902-03	1903-04
April	23,93	27,58
May	24,02	27,44
June	24,62	27,69
July	24,96	27,85
August	25,29	28,01
September	25,17	29,12
October	23,51	28,56
November	25,94	29,28
December	27,35	29,96
January	26,99	29,13
February	27,00	29,54
March	27,12	30,30
Average	25,74	28,70
Maximum	27,35	30,30
Minimum	23,93	27,44

Letter No 6468, dated 23rd December 1889, from J F Finlay, Esq Officiating Secretary to the Government of India, Finance and Commerce Department, to the Secretary to the Chamber of Commerce, Calcutta / Madras / Bombay

I am directed by His Excellency the Governor General in Council to request that the Chamber of Commerce, Calcutta / Madras / Bombay, will be good enough to favour the Government of India with an expression of its opinion upon a proposal to increase the portion of the Paper Currency Reserve which is invested in Government securities

2 When the issue of a Government Paper Currency was first considered by the Government of India in 1860, it was proposed to fix the limit of the portion of the Reserve which might be invested in Government securities at a fixed proportion, two-thirds, of the value of notes in circulation But it was decided that the safer and sounder principle was to prescribe a fixed sum as the limit, that sum being somewhat less than the smallest aggregate amount of notes which experience had proved to be necessary for the monetary transactions of the country It was considered that notes to this amount at least would always be outstanding, and that consequently it would not be necessary to keep coin in reserve for the purpose of cashing them When this principle was adopted it was contemplated that it would be necessary to vary the limit in accordance with the circumstances of the times, and that the maximum sum that might be invested in Government securities would be fixed from time to time by legislation In the Paper Currency Act of 1861, the sum to be so invested was fixed at four crores of rupees In 1870 in view of the facts that the note circulation had increased considerably since that limit was fixed, and that the investment in Government securities bore a much smaller proportion to the total reserve than when the Act of 1861 was first brought into operation the limit was raised to six crores The minimum circulation of each year from 1862 to 1870 will be found in the statement appended The maximum limit of investment in Government securities is still six crores of rupees

3 Since 1870 the note circulation has greatly increased, as will be seen from the Statement attached In that year the minimum circulation was about 8¾ crores of rupees, but since 1880-81 the minimum circulation has never fallen as low as 12 crores, for the last five years the minimum has exceeded 13 crores, and in the present year it approaches 16 crores There is no reason to doubt that the minimum circulation in the future will continue to be at least 50 per cent in excess of the minimum of 1870 With a minimum circulation in the present year of, say, 15¾ crores, the investment of the Reserve remaining at six crores, the sum held in coin and bullion amounts to about 9¾ crores

4 The primary consideration in dealing with this question must be the necessity of securing the immediate convertibility of the note under all circumstances to which we can reasonably look forward His Excellency in Council has no doubt that the reserve held in coin and bullion at the present time is more than sufficient to secure convertibility under all ordinary conditions, and the question to be decided is whether or not it is necessary to maintain the present high rate of reserve with a view to possible difficulties of the future which may never arise In connection with this aspect of the case, I am to call the attention of the Chamber to Section 21 (1) of the Paper Currency Act, 1882, under which the general credit of Government is pledged for the convertibility of the note The Currency Reserve would, therefore, be supplied in case of need by the cash balance at the disposal of the Government of India, and the note would not cease to be convertible, even if the Currency Reserve was exhausted, so long as the Government of India could spare funds from the general cash balance at its disposal The proposal

which has been under the consideration of the Government of India is to take power from the Legislature to increase the amount of the invested reserve to eight crores of rupees, but it is not intended for the present to increase the investment by more than one crore, any further increase up to the limit of eight crores being made only if and when circumstances are favourable, and it is possible that even the increase of one crore might not be made for some time

5 I am to say that His Excellency in Council will be glad to be favoured with the views of the Chamber as early as may be convenient

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Statement showing Minimum Currency Note Circulation and the Reserve in Securities on Bullion and Coin since March 1862

1	2	3	4	5	6	7
Month in which the Currency Note circulation of each Year since 1862 was the lowest	Minimum Note circulation referred to in (1)	Metallic Reserve of the Currency Department (Silver and Gold* Coin and Silver Bullion)	Reserve held in Government Securities	Silver Coin included in (3)	Percentage of (3) on (2)	Percentage of (5) on (2)
	Rs	Rs	Rs	Rs		
March 1862-63	3,69,00,000	3,69,00,000	—	3,69,00,000	100	100
May 1863-64 -	5,01,00,000	4,33,75,420	67,24,580	3,03 75,420	86 58	60 63
June 1864-65 -	5 99,25,690	2,95,30,680	3,03,95,010	2,12 30 660	49 28	35 43
February 1865-66	6 87,48 020	2,89,45,480	3,98,02 540	1,81,75,310	42 10	26 44
April 1866-67	7 02,02 540	3 04,00,010	3,98,02 530	2,68,99,800	43 33	38 32
1867-68	7,83,54,890	4,58,34,340	3,25,20,550	3,82,25,130	58 49	48 78
1868-69	8 91,63,970	5,66,43,420	3,25,20,550	5,12,34,210	63 53	57 46
, 1869-70	9 80,32 010	5,89,01,940	3,91,30,070	3,43,73 730	60 08	35 06
May 1870-71	8 68 19,030	5,55,63,670	3,12,55,360	4 17,14,450	63 99	48 05
April 1871-72	10,13 06 840	6 90 34,830	3,22 72,010	6,31,88,450	68 14	62 37
March 1872-73 -	11,13 50 610	5 44,11,080	5,69,39,530	4,33,58,500	48 86	38 04
, 1873-74	9 24 97 610	3,55,58,080	5,69,39 530	2,29,10,510	38 44	24 77
April 1874-75	9,27 43 390	3,58,03,860	5,69,39,530	2,42,34,270	38 65	26 13
, 1875-76	10,75 44,640	5,06,05 110	5,69,39,530	4,20,46,580	47 05	39 09
May 1876-77	10,70,38 540	5 00,99,010	5,69,39,530	5,00,07,840	46 85	46 72
April 1877-78	11,13 05 280	5,13,24,380	5,99,80,900	3,73,00,200	46 11	33 51
March 1878-79	11,42,36,450	5,42,45,280	5,99,91,170	3,78,99,040	47 48	33 18
May 1879-80	11,17,12,730	5,25,39,570	5,91,73,160	3,93,10,380	47 03	35 19
April 1880-81	12,88,52 650	6,88,81,900	5,99,70,750	5,83,89,340	53 46	45 31
, 1881-82	12,85,58,290	6,86,34,110	5,99,24,180	6,69,00,000	53 39	52 04
,, 1882-83	14,19,99,180	8,19,99,210	5,99,99,970	6,95,44,960	57 74	48 97
January 1883-84	12,10 91,100	6 10,91 130	5,99,99,970	5,67,25 500	50 45	46 84
April 1884-85	12,34,24,500	6 34,24,510	6,00,00,000	5,24,00,280	51 39	42 46
,, 1885-86	13,01,78,470	7,01,80 970	5,99,97,500	5 21,37,450	53 91	40 05
,, 1886-87	13 77,91,000	7 77,99,000	5,99,95,000	6,41,38,820	56 46	46 55
May 1887-88 -	13,90,32,420	7,90,39,920	5,99,92 500	7,08,77,980	56 85	50 98
February 1888-89 -	14,82,98,050	8,88,08,020	5,94,90,030	7,89,34,730	59 88	53 23
31st May 1889-90 -	15,76 65,640	9 78 45,610	5,98,20 030	8,73,41 442	62 06	55 39
Total Circulation since May 1889						
30th June 1889-90	16,24,30,050	10,26,10,021	5,98,20,029	9,72,16,771	63 17	59 85
31st July 1889-90 -	16,49 51,130	10,51,31,101	5,98,20,029	9,97,63,602	63 73	60 48
31st Aug 1889-90	16 15 23,510	10,15,23,530	5,99,99,980	9,22,08,752	62 85	57 08
30th Sept 1889-90	16,13,80,895	10,13,80,915	5,99,99,980	9,04,04,379	62 82	56 02
31st Oct 1889-90 -	16,62 98,105	10,62,98,125	5,99,99 980	9,53,17 630	63 92	57 32
30th Nov 1889-90 -	16,66,77,605	10 66,77 625	5,99,99,980	9,79,93,406	64	58 79

* From 1865 to February 1876

Letter No 5318A, dated 7th November 1895, from J F Finlay, Esq, Secretary to the Government of India, Finance and Commerce Department, to the Secretary, Chamber of Commerce, Calcutta / Madras / Bombay

I am directed by His Excellency the Governor-General in Council to request that the Chamber of Commerce will be good enough to favour the Government of India with an expression of their opinion upon a proposal to take power from the Legislature to raise the limit of the Paper Currency Reserve which is held in Government securities, from eight to ten crores of rupees

2 The maximum limit of the invested Reserve was raised on the last occasion in 1890 from six to eight crores by Act XV of 1890, and in accordance with the requirements of the Currency Act the increases to the investment from time to time were separately notified, the limit of the investment having been raised to seven crores by the Notification in this Department, No 5900, dated 19th December 1890, and to eight crores by the Notification No 4861, dated 3rd December 1891

3 The considerations involved in the question of an increase in the currency investment were fully discussed in 1890, and the history of the subject was brought down to 1889 in my letter to the Chambers of Commerce No 6468, dated 23rd December 1889, a copy of which is enclosed The following table gives the figures of the circulation of Paper Currency for all India from 1887–88 (*in lakhs of Rupees*) —

Month	1887–88	1888–89	1889–90	1890–91	1891–92	1892–93	1893–94	1894–95	1895–96
April	14,02	16,54	15,83	17,42	25,71	23,96	24,22	30,64	30,76
May	13,90	17,03	15,77	17,65	26,18	25,28	24,99	31,13	30,17
June	14,08	17,69	16,24	17,94	26,81	26,77	26,49	31,40	30,86
July	15,48	18,06	16,50	19,18	27,04	28,46	27,05	31,20	32,43
August	15,66	17,69	16,15	20,50	26,93	29,06	28,30	31,57	31,54
September	16,78	16,91	16,14	22,97	26,24	28,97	28,98	31,23	—
October	17,78	16,74	16,63	25,66	25,99	28,94	28,59	31,81	—
November	18,61	15,50	16,67	26,54	25 88	28,83	29,62	32,36	—
December	17,69	15,15	15,47	27,04	24,85	26,05	30,13	31,45	—
January	17,08	15,28	16,29	27,66	22,62	26,61	30 52	29,50	—
February	16,45	14,83	16,37	26,42	22 90	25,86	30,20	30,35	—
March	16,42	15,74	15,77	25,69	24,08	26,40	30,41	30,70	—
Average	16,16	16,43	16,15	22,89	25,44	27,10	28,29	31,11	—
Maximum	18,61	18,06	16,67	27,66	27,04	29,06	30,52	32,36	—
Minimum	13,90	14,83	15,47	17,42	22,62	23,96	24,22	29,50	—

The above figures indicate that the total circulation of currency notes has steadily increased since the year 1887–88, and has now reached a figure about double that of the year 1889–90 But the Government of India are of opinion that these figures of total circulation show the increase as larger than can be considered to be the normal increase which may, with due regard to the caution desirable in the discussion of the question now under consideration, be counted on as certain to continue In the first place, the Government balances during the past two years have been unusually high, and a great portion of the excess balances, held in the Government Reserve Treasuries in currency notes is included in the circulation Secondly, the figures include the notes held by the Presidency Banks at their head offices, but the demands for encashment of notes so held are occasionally so large that a considerable portion of them cannot be treated as permanently in circulation

4 On the grounds above explained, it is considered that for the present purpose it is desirable, in order to prevent all risk of over estimating the

permanent circulation, to exclude the balances of currency notes in the head offices of the Presidency Banks and in the Reserve Treasuries from the total circulation After such exclusion the figures for 1889-90 and subsequent years in the Table in paragraph 3 will stand as follows —(*In lakhs of Rupees*)

Month	1889-90	1890-91	1891-92	1892-93	1893-94	1894-95	1895-96
April - - -	13,20	13,71	17,28	18,72	20,84	18,64	21,81
May - -	13,39	13,96	17,41	19,17	19,99	19,00	21,34
June - -	13,40	13,66	17,90	19,97	19,49	19,09	20,83
July - -	13,44	13,73	17,37	20,59	19,19	19,10	21,49
August - - -	12,95	14,18	17,61	20,49	18,96	19,49	21,58
September	13,20	15,13	17,69	21,66	19,09	19,55	—
October	13,51	15,88	19,17	22,12	18,83	20,12	—
November	13,31	15,67	19,01	22,30	18,84	20,65	—
December -	13,69	16,59	19,39	22,40	19,66	21,82	—
January -	13,62	16,92	18,21	21,76	19,19	22,15	—
February - -	13,33	17,51	18,44	21,33	18,24	21,65	—
March -	13,50	17,62	18,45	21,68	18,49	21,31	—
Average -	13,38	15,40	18,16	21,04	19,23	20,21	—
Maximum	13,69	17,62	19,39	22,40	20,84	22,15	—
Minimum -	12,95	13,66	17,28	18,72	18,24	18,64	—

From this Table it is observed that when the last increase to the investment was discussed towards the end of 1889, the circulation (excluding balances in the Reserve Treasuries and head offices of the Presidency Banks) amounted to only about 13 to 13½ crores, while during the three years ending 1894-95 the minimum circulation has been well above 18 crores

5 On a consideration of the figures given above, it appears to the Government of India that the circulation of Currency notes has now attained a level about 50 per cent higher than in the year 1889-90, and that it will be quite safe now to raise the limit of the investment to ten crores The figures might indeed justify an even greater increase in the investment, but the Government of India do not desire to go to the full limit of safety An investment of the Reserve to the extent of ten crores would represent only about 50 per cent of the average circulation as given in paragraph 4 The proposed increase would therefore appear to leave a fully sufficient margin to secure the immediate convertibility of the note even during a commercial crisis As previously explained in paragraph 4 of my letter of 23rd December 1889, over and above the reserve of coin and securities, the general credit of Government is pledged for the convertibility of the note under section 21 (1) of the Paper Currency Act

* Copy enclosed

6 The proposal which His Excellency the Governor-General in Council is disposed to make now is to take power from the Legislature to increase the limit of the investment from eight to ten crores, and for the reasons above explained, he considers, subject to the opinions he may receive from the Presidency Banks and the Chambers of Commerce, that this power may be used with safety on some convenient occasion when it may be possible to carry out the operation without affecting the public market

7 I am to say that His Excellency in Council will be glad to be favoured with the views of the Chamber as early as may be convenient

Enclosure No 2

No G P L 122-6, dated Madras, the 17th May 1904

From J Kerr Greig, Esq , Acting Secretary and Treasurer, Bank of Madras, to the Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge receipt of your letter No 2632A , dated the 29th ultimo, on the subject of a proposal, which is under the consideration of the Governor-General in Council, to take power by legislation to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees, and in reply I am desired to say that, in view of the recent increase in the permanent circulation, my Directors are of opinion that the proposed increase of two crores of rupees in the invested portion of the Reserve may be made with safety

2 My Directors are also of opinion that the investment should be made in rupee securities of the Government of India as giving the best return, and it appears to them that advantage might be taken of the issue of the new loan as a convenient opportunity to carry out the operation without prejudice to the market

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Enclosure No 3

Dated Cawnpore, the 23rd May 1904

From A Shakespear, Esq , Assistant Secretary, Upper India Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department

I am directed to acknowledge receipt of your letter No 2632A , dated 29th ultimo, inviting the views of this Chamber on a proposal to augment the invested portion of the Paper Currency Reserve by a transfer of two crores of rupees from the metallic Reserve

2 My Committee have carefully studied the correspondence dealing with the past history of the Currency Reserve, which served as an accompaniment to your communication, and in their opinion the present position fully justifies the proposal now put forward, which is deserving of the undivided support of the commercial community

The question involved in paragraph 7 of your letter is perhaps a difficult one to express an opinion on without a fuller knowledge of the principles which are to regulate the Government of India's policy with regard to future borrowings, but looking to the fact that it would result in a reduction in the amount of interest payable in sterling, my Committee are disposed to recommend that Indian sterling loans should be selected for investment of the Currency Reserve, and the present ratio of gold and silver composing the metallic Reserve would seem to indicate the expediency of releasing two crores from the gold portion of the Reserve

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Enclosure No 4

Dated Bombay, the 26th May 1904

From C H Armstrong, Esq , Chairman, Bombay Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department

Under the instructions of the Committee of the Bombay Chamber of Commerce, I have the honour to acknowledge the receipt of your letter No 2632A , of the 29th April 1904 (with accompaniments), in which the opinion of the Chamber is invited relative to a proposal, which is under the

consideration of the Governor-General in Council, to take power by legislation to increase the invested portion of the Paper Currency Reserve from ten to twelve crores of rupees

2 The matter has received very careful consideration, and I am now instructed to say—

(1) The Committee are in favour of the invested portion of the Paper Currency Reserve being raised from 10 to 12 crores, as the position at present seems to warrant such an increase

(2) With reference to the enquiry in paragraph 7 of the Government of India's letter as to whether this Chamber has any observations to offer on the suggestion that the investment might be made in sterling securities, my Committee desire to remark that as a depletion of the moderate supply of coined rupees now held in the silver Reserve seems to them undesirable, they favour the proposed investment being made in sterling securities, the stock of gold which at the present time is not much needed for the purposes of circulation being sufficient for such a purpose

Should the Government of India decide, however, on investing in silver securities, my Committee would suggest that consideration be shown to the holders of the 3 per cent Loan and that the investment should be largely made in this paper

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Enclosure No 5

Dated Rangoon, the 20th May 1904

From The Honourable C H Wilson, C I E , Chairman, Rangoon Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge the receipt of your letter No 2632A , dated 29th April 1904, with enclosures, inviting the opinion of this Chamber on (1) a proposal to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees, and (2) on the suggestion that the additional investment should not be in rupee securities but in sterling securities either of the British Government or of the Government of India

2 In reply I have the honour to say that, the proposed increase of the invested portion of the Currency Reserve from ten to twelve crores appears to be in accordance with precedent, and the conservative policy hitherto pursued by the Indian Government in this connection, and in the opinion of the Committee, is amply justified by the facts and figures laid before them

3 With regard to the suggestion that the additional two crores should be invested in sterling securities either of the British Government or of the Government of India, the Committee venture to draw attention to the disparity still observable between the market values of these and the rupee securities of the Indian Government, a disparity which can only be due to the scepticism still prevalent in some quarters as to the stability of Indian exchange

4 The Committee believe that any investment of the nature suggested, would tend still further to accentuate this divergence to the obvious detriment alike of the Indian Government and the Indian investor, while a converse effect should be produced by an investment of the two crores in rupee securities, for which reason the Committee are strongly in favour of the latter course

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Enclosure No 6

Dated Calcutta, the 25th May 1904

From W D Cruickshank, Esq , Secretary and Treasurer, Bank of Bengal, to the Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge receipt of your letter No 2632A, dated 29th ultimo, asking for the opinion of the Directors of the Bank on a proposal, which is under the consideration of the Governor-General in Council, to take power by legislation to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees Your letter encloses for reference copies of Mr Finlay's letters of 23rd December 1889 and 7th November 1895, giving the history of the invested reserve and the considerations which have from time to time moved the Government of India to increase it

The Directors have considered these letters, with the statements that accompanied them, and also the reports and statistics published by the Head Commissioner of Paper Currency

2 The Directors observe that soon after the increase in the invested portion of the Currency Reserve in 1896 a considerable contraction of the gross note circulation took place, and that it continued for upwards of two years without showing any marked sign of recovery The figures are as follows (*In lakhs of Rupees*) —

Years	Gross Note Circulation	Reserves			Investments	Proportion of Uninvested Reserve to Circulation
		Silver	Gold	Total		
1894-95	31,11	23,11	—	23,11	8 00	74 28
1895-96	29,28	21,28	—	21,28	8 00	72 67
1896-97	25,98	17,31	—	17,31	10 00	66 62
1897-98	24,24	14,22	—	14,22	10 00	58 66
1898-99	25,63	14,93	70	15,63	10 00	60 98

In the years 1894–95 to 1897–98 the whole of the uninvested portion of the Currency Reserve consisted of silver only and it is understood that throughout the whole period even when the gross note circulation was at its lowest point, the coined rupees in hand were amply sufficient to meet all demands The increase in the invested portion of the Currency Reserve effected in 1896 was therefore fully justified by results

3 The expansion of the gross note circulation from the lowest point touched in 1897–98 has been continuous and important, but the uninvested effective reserve in silver has not increased in proportion, as gold has taken the place of silver to a very large extent The following figures, which are taken chiefly from the Head Commissioner's Report, dated 31st July 1903, show the progress of the gross note circulation and Reserves for the last four years (*In lakhs of rupees*) —

Years	Gross Note Circulation	Reserves				Proportion of Uninvested Coin to Note Circulation		
		Silver	Gold	Total	Investments	Silver	Gold	Total
1899-1900	27,96	11,42	6,54	17,96	10,00	40 84	23 39	64 23
1900-01	28,88	6,68	12,19	18,87	10,00	23 13	42 20	65 33
1901-02	30,03	12,42	7,62	20,04	10,00	41 35	25 37	66 72
1902-03	33,74	13,50	10,24	23,74	10,00	40 01	30 35	70 35

4 As already stated, the uninvested silver reserve from 1894–95 to 1898–99 appears to have been amply sufficient to meet all demands upon it,

but the same cannot be said of it throughout the years 1899-1900 to 1902-03 For the greater part of the calendar year 1900 the uninvested silver reserve in the Currency Department was inadequate, and the scarcity of silver coin caused great inconvenience to the public generally, and to traders some actual loss as well

5 It was thought at the time that the Government of India delayed the coinage of silver because of an undue apprehension of a redundancy in the circulation, and a desire to increase the gold reserve to a high figure

6 By means of coinage and large additions to the silver reserve the inconvenience was in time removed, and there has been no recurrence but the experience is a recent one, and the recollection of it is apt to give rise to apprehension whenever the silver reserve shows a tendency to run down, or when large demands for silver coin appear to be probable, as was recently the case

7 The amount of the invested Currency Reserve is fixed from time to time by legislation The Directors do not at present go so far as to suggest that the amount of gold to be held in the uninvested Reserve should be similarly fixed, but they think it is desirable that provision be made departmentally for the replenishment of the silver reserve automatically whenever it may fall or show signs of falling to a certain point, and that this point should be fixed well above the amount which experience shows to be a safe provision for all probable demands

8 Subject to the proportion of gold in the uninvested portion of the Currency Reserve being limited and not allowed to rise unduly to the prejudice of a safe silver reserve, I am to inform you that the Directors are of opinion that the proposal to increase the investments from 10 crores to 12 crores is warranted by the position and prospects of the note circulation of the country

9 With regard to the suggestion that it would be desirable for some reasons to make the investment not in rupee securities but in sterling securities, either of the British Government or of the Government of India, I am to inform you that the Directors think that there is something to be said in favour of such a step, although it is a departure from ordinary practice In the first place, the invested portion of a Currency Reserve, to be really effective in case of need, should be readily saleable, and there can be no doubt that sterling securities either of the British Government or of the Government of India would be more readily saleable in London than rupee securities either in this country or in London Besides, as the sterling securities would doubtless be held in London, the proceeds of sales would be immediately available on the spot for the purchase of silver or gold, as required, at the chief source of supply Again, the investment of the Currency Reserves in sterling securities would leave the issues of rupee paper free to investors in this country In this connection I am instructed to attach hereto an extract from a letter addressed by the Bank to the Bengal Chamber of Commerce, on 15th November 1902, relative to the large increase that has taken place in previous years in the amount of rupee paper held by Native investors, and to the desirability of encouraging such investments The statements referred to in that letter have been made up to date, and show a further marked increase in the amount of Native holdings, while there is corresponding decrease in the amount of rupee paper held in London

Extract from a Letter from the Secretary and Treasurer, Bank of Bengal, to the Secretary, Bengal Chamber of Commerce, Calcutta, dated 15th November 1902

I beg to enclose herewith statements showing the amounts of enfaced and unenfaced rupee paper outstanding at the end of March each year since 1893, together with the amounts of all new issues and repayments, and, with reference thereto, to state that the Bank of Bengal attached great importance to the Government Rupee Loans being taken up and held in India, more especially by Native investors, and take every opportunity of encouraging this form of investment You will observe that India has not only taken up and retained all Rupee Loans issued in the course of the last 10 years, but has also absorbed in the same period about 6¼ crores worth of paper re-enfaced from London The Bank hope that future Rupee Loans may issue on a scale and under conditions likely to maintain in the Indian money markets a supply of paper sufficient to meet investment demands, and that prices will be such as to induce Native investors to increase their holdings rather than tempt them to reduce them for the sake of a casual profit

Statement showing the proportion of the Registered Debt of India as held by Europeans and Natives respectively

——	*Europeans	Natives	Total
	Rs	Rs	Rs
December 1893	74 63,75,463	24,62,55,993	99,26 32,456
June 1894	70,86 48 389	28,17,22 896	99,03,71 255
December 1895	71 25,96 645	23,31,37,053	97 57,33 698
1896	79,90 04,884	23,44 60 747	1,03,34 65 631
1897	63,63,44 086	42 07,78 746	1 05,71,22,831
1898	64 89 74 628	41,87,99 343	1,06 77,73,971
1899	65,99,40,921	40,69,65 605	1,06 69 06,524
1900	65 27,00,391	41,46,08,330	1 06,73,08,724
1901	71,92,27 451	39,72,13,696	1 10,66,41,147
1902	69,15,44,758	42,96,91,716	1,12,12,36 474
1903	68,77,55,951	45,33,73,923	1,14,11,29,874

* This sum includes the Paper Currency Reserve and amount of enfaced Notes held in London

Changes in the Loans

	Per Cent	Rs	
1893	3½	3,50,00,000	1893-94 issued
"	4½	7,34,32 467	Notified for discharge
1894	4	—	Converted into 3½ per cent
1895	3	4,00,000	1895-97 issued
"	3	2,04,85,500	Do as per G G's No 428D, 19th December 1896
"	3½	5,00,24,800	1893-94 and 1853-54 converted into 3 per cent and notified for discharge
1897	3½	3,00,00,000	1854-55 issued
1898	3½	1,20,00,000	Ditto
1899	portion	2,23 000	Notified for discharge
1900	3½	2,00,00,000	1900-01 issued
1901	3½	1,00,00,000	Ditto
1902	3½	1,50,00,000	Ditto
1903	3½	2,00,00,000	Loan increased

Particulars of Rupee Debt

—	4½ per cent	4 per cent	3½ per cent	3 per cent	*Sundries	Total Rupee Debt	New Loans raised in Crores	Outstanding balance of enfaced Rupee Paper
	Rs	Rs	Rs	Rs	Rs	Rs		Rs
31st March 1893	1,38,81,417	95,28 63,259	5,21,500	—	9 83,054	96 70,50 929	3 5	25,03 38 613
" 1894	26,83 910	95 24,12,022	3,55,12,800	—	9,86 886	99 15,35,558	-	24,15 55 613
" 1895	8 92,150	10,52,00 952	87 20 43,200	—	9,61,386	97,95,88 688	—	23 62 61,907
" 1896	6 21,850	58 66,823	96,16 23 500	—	9 54,456	97 51,16 364	4 0	25,35 07 627
" 1897	5 14,950	52,42,123	91 32 42 600	10 95 68 200	9,52 398	1,02 95 00 161	3 0	24 03,66 627
1898	4,27,150	40 81,695	24,13 70 100	10,97,25 500	9 52 386	1 05 65 53 1 31	1 2	21,30 87 027
" 1899	3,88 750	35,78,923	95 19 70 900	11 07,05 100	7,75 766	1 06 74,15 451	—	21,44 12,334
" 1900	1 60 130	34,39,410	95 18,67,600	11,07,05,700	7 62 166	1 06 68 25,386	3 0	20,81 88 234
" 1901	1,16 050	31,34,210	98 18 14 700	11,07 07 400	7,62,466	1 09 65 95,124	1 0	22 18 12 134
" 1902	50 550	31,03 043	99 17 44 100	11 07 07 200	7,62 166	1 10 63 27 449	1 5	20 36 22 034
" 1903	77 850	29 45 560	1 00 67 09 500	11,07 08 300	7,91 066	1 12 12 22 276	2 0	18 63 45 044
1904	70 350	28 74 000	1 02 68 78 100	11 07,10 300	7 91 066	1 14 11 23 776		17 13 92 244

* Treasury Notes
Treasury Notes Perpetual Bonds and B D in Madras
Ditto 6 per cent
Ditto 3 per cent
Treasury Bills

Enclosure No 7

Dated Madras, 6th June 1904

From the Hon Sir George Arbuthnot, Chairman, Madras Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge receipt of your letter of the 29th April, asking for an expression of the views of the Chamber with reference to a proposal which is under the consideration of the Governor General in Council to take power by legislation to increase the invested portion of the Paper Currency Reserve from Rs 10 to Rs 12 crores

I have the honour to state that your letter has received the careful consideration of the Chamber, which is of opinion that it would be both safe and expedient in the interests of the tax-payers generally to make the proposed increase in the invested portion of the Paper Currency Reserve

With regard to the question as to whether the investment should be in rupee or sterling securities, this Chamber is decidedly of opinion that it should be in the rupee securities of the Government of India To make the investment in the sterling securities of the British Government would seem to imply a doubt on the part of the Government of India of their own credit, and to make it in Indian Government sterling securities would be taken to imply an equally objectionable doubt of the permanency of their own exchange policy and the stability of Indian exchange It will, this Chamber is of opinion, be in the interests alike of the Indian tax-payer, the Indian investor in rupee paper, and the Government that the investments should be made in the rupee securities of the Government of India

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Enclosure No 8

No 189, dated Karachi, the 8th June 1904

From F S Couper, Esq , Secretary, Karachi Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge receipt of your letter No 2632A , dated the 29th April last, requesting an expression of opinion on a proposal under consideration of the Governor-General in Council, to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees

I am directed by my Committee to express their approval of the proposed legislation by Government, as, in their opinion, the position as set forth in the Tables you attach, fully justifies such action

My Committee are also completely in accord with the suggestions (*a*) that the investment should be made from the *Gold* in the Reserve, and (*b*) in sterling securities rather than in rupee securities

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Enclosure No 9

No 931, dated Calcutta, the 9th June 1904

From W Parsons, Esq, Secretary, Bengal Chamber of Commerce, to the Secretary to the Government of India, Finance and Commerce Department

I am directed by the Committee of the Bengal Chamber of Commerce to acknowledge receipt of your letter No 2632A, dated Simla, 29th April 1904, asking for an expression of opinion on the proposal now under the consideration of the Governor-General in Council to take power by legislation to increase the invested portion of the Paper Currency Reserve from 10 to 12 crores of rupees

2 In paragraph 7 of your letter you ask for a further opinion on a proposal, also before the Government of India, to make the investment not in rupee securities but in sterling securities either of the British Government or of the Government of India

3 The Committee have given their very close and careful attention to both the points raised in your letter, and I am instructed to say with reference to the first that they are unanimously of opinion that the invested portion of the Paper Currency Reserve can be safely increased from ten to twelve crores of rupees

4 As to the second point on which an opinion is asked, viz, the advisability of making the new investment in sterling securities, the Committee are in favour of this proposal, notwithstanding that it involves a departure from long established precedent Although the Committee would not suggest any alteration of this kind being made in connection with the ten crores already invested, they consider it would be advisable to invest the additional two crores now under consideration, in sterling securities either of the British Government or the Government of India It appears to them that in case of need such securities would be more readily and quickly realised in London, where they would no doubt be held, than would be possible with rupee securities either in India or in England, and occasions might arise for the speedy purchase of silver, for which this investment would be available on the spot, and the time required for the transmission of gold from India would be saved

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Enclosure No 10

No 192, dated Bombay, 9th June 1904

From J Begbie, Esq, Secretary and Treasurer, Bank of Bombay, to the Secretary to the Government of India, Finance and Commerce Department

I have the honour to acknowledge receipt of your letter No 2632A, dated 29th April last, in which you request that the Directors of this Bank will favour the Government of India with an expression of their opinion on a proposal which is under the consideration of the Governor-General in Council to take power by legislation to increase the invested portion of the Paper Currency Reserve from ten to twelve crores of rupees

In reply I am instructed to address you as follows —

2 You append to your letter statements for the purpose of showing that an increase would be justified in view of the enlarged net circulation of notes in the hands of the public, and also of the fact that the invested portion of the Reserve would then bear nearly the same percentages to the average minimum and net circulation as it did when the last investment was made The statements include the figures for the years 1902-03 and 1903-04, which show a very exceptional inflation, and my Directors are not disposed to agree with the opinion expressed in your letter that this recent and very rapid increase may be taken as an index of a growth of the monetary transactions of the country and consequently of the minimum amount of notes which will be necessary for such transactions So far as the figures for the past two years are concerned, my Directors think it is unsafe to place much reliance on them as indicating a permanent larger use of notes as currency They consider that a large portion of the recent increased holding of both notes and rupees by the public is likely to be only temporary The increased holding probably represents to a large extent unusual profits on agricultural operations and trading, money, in fact, received in exchange for produce &c , sold, and my Directors think it is very desirable to wait and see whether it will remain in circulation as currency in the hands of the public, before acting on the conclusion that the minimum note circulation has been permanently raised And although, apart from the statistics for those two years, the increased minimum net circulation would appear to justify the proposed investment, my Directors are of opinion that the question under consideration should not be decided on the statistical position alone

3 In paragraph 6 of your letter you state that in 1896 some doubts were expressed as to the effect on the stability of exchange of a measure which would result in increasing the rupee circulation by two crores, and you add that at the present time the stock of gold in the currency reserve is so high that the Government of India could view with equanimity such an addition to the silver currency My Directors regret they are unable to share the confidence thus expressed by Government In their opinion an addition, by itself, of two crores to the silver currency would probably have no ill effect on the stability of exchange, but there is considerable risk to that stability in large frequent additions to the token circulation, and my Directors think that the present proposal should be considered in the light of the policy pursued by Government in connection with all extensions of the currency That policy has led during recent years to a very large increase of the token coinage, and to the adoption of permanent measures to enable a rapid addition to be made to the stock of silver coin without the risk of delay in importing silver bullion for coinage (as announced in the last Budget Statement), and the leading feature of the policy seems to be that all increases of the currency must be in the form of token coins This system differs from that followed in the more important gold standard countries, the general practice being to strictly limit the quantity of subsidiary or token coins The result has been that far more rupees have been issued than are really wanted for actual circulation Supplies of money have for a considerable time past been in large excess of needs This fact was clearly displayed during the past six months by the comparatively low rates of interest and the difficulty experienced in obtaining full employment for money, while, at the same time, the trade of the country was very large and of high value This seems to show that rupees have been over abundant, seeing that the great bulk of money in use in India consists of rupees, and that it cannot be really necessary that most of the money in use should be in the form of subsidiary coins With the gold standard the aim should be to restrict the quantity of such coins to as low a minimum as possible My Directors regret they cannot regard this result of the policy of Government with approval It seems to them to be contrary to sound currency principles to continue to expand the circulation, practically without limit, only in the form of token coins Government no doubt, have endeavoured to meet this objection, and at the same time to protect themselves, by the establishment of a Gold Reserve Fund into which the profits of coining new rupees are

paid, and the amount accumulated has been invested in sterling securities. The Fund is intended as a guarantee for the conversion into gold, if required, of the rupee token coinage. This expedient is an unusual one, and my Directors are unable to regard it with favour, especially in view of the very large quantities of rupees that have been issued and of the apparent readiness of Government to continue further coinage notwithstanding that the rupee currency is already superabundant. It seems to my Directors that the system must lead to excessive issues of rupees, and that rupees in excess of requirements will have to be withdrawn from circulation sooner or later. Such an operation as the reconversion of rupees into gold as contemplated would almost certainly be carried out under disadvantageous circumstances and a considerable loss, and the credit of the Government gold currency policy might also be endangered. The contingency of having to reconvert rupees into gold is one which should be avoided as far as possible, and, in the opinion of my Directors, it would be far better to inaugurate at once a gold currency and so limit the coinage of rupees, rather than take the risk of having to melt rupees into bullion for sale at almost certain, and probably heavy, loss, and the further risk of the Indian currency being impaired. A gold currency is the natural and usual concomitant of a gold standard, and there appears to be no good reason why the Indian gold standard should not be associated with a gold currency, which as in other countries might be extended without limitation and without risk, and which would be automatic and self-regulating. Sovereigns no doubt are legal tender and have come into the country in large quantities, but they do not circulate to any large extent as currency. My Directors believe sovereigns are of unsuitable value for the wants of the public, but they are convinced that gold coins of smaller value issued by the Indian Mints would be extensively welcome. Recent imports of sovereigns have come in in exchange for Indian produce, and my Directors are unable to approve of the system which converts such imports into rupees whether money in that medium is required or not, and practically compels the country to be content with a non-automatic currency consisting largely of overvalued silver coins.

4. In the case under reference Government could view with equanimity an addition of two crores to the silver currency because of the stock of gold held in the Currency Reserve. That stock of gold is no doubt a most important factor in the situation. But it has to be remembered that that gold is required as a guarantee for the maintenance of the gold standard, and that in other large gold standard countries where token coins in circulation are in large quantity much larger stocks of gold are held (in addition to gold coins in the circulation), than the amount now held in India, and those countries also refrain from adding to the strain on the standard by increasing the quantity of token coins in use. In India the additions to the circulation have increased the burden thrown on the stock of gold of maintaining the standard, and, although no adverse effect on the stability of exchange has so far manifested itself from the late additions, my Directors are of opinion that this result has arisen not so much from the possession of the gold, on which Government place so much reliance, as from the favourable trade balances. With a continuance of favourable balances it is probable no bad effect will appear because of the swollen state of the rupee currency. But there can be no certainty that those balances will always be favourable, and my Directors consider it would be wise to await developments before acting on the conclusion that the gold held is strong enough to maintain stability of exchange, especially as the inflation of the circulation is an event of comparatively recent occurrence. The adverse action of an inflated token currency need not be immediate. It may exert its force at any time. Besides maintaining the standard, the stock of gold in the Currency Department is practically the only store available in the event of gold being wanted to adjust the balance of trade should it unfortunately turn against India, and calls on it for that purpose should be kept in view however remote they may appear at the present time.

5. My Directors' view of the present state of the rupee circulation being as above indicated, they regret they are unable to approve of the release of

two crores of rupees from the Currency Reserve which would be the result of the proposed investment if made from the silver reserve

6 With respect to the alternative of investing from the gold reserve, I have to say that, while my Directors would, under existing circumstances, prefer a gold investment rather than one from the rupee reserve, they are of opinion that in this case also no action should be taken for the present They consider that this is not the time to invest either from the silver or the gold reserve, and that it would be better to wait and watch the results which may ensue from the large additions to the rupee circulation A reduction in the gold metal reserve by two crores might perhaps be regarded without much concern, seeing that the balance of trade is very favourable and that gold is still being imported My Directors think, however, that the position would be far stronger by possession of the metal itself rather than of gold securities The metal is the best and most satisfactory basis for the currency The Gold Reserve Fund has, unfortunately, in the opinion of my Directors, been already invested They would much prefer to see the gold itself retained in the country And, in any case, the money can be invested at any time if further experience shows that it can be spared A comparatively small loss in the way of interest is the only disadvantage

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Despatch from the Secretary of State to Government of India, No 141 (Financial), dated 11th October 1904

My Lord,

I have considered in Council Your Excellency's letter in the Finance and Commerce Department, No 295, dated 18th August 1904, submitting for my approval proposals that (1) the invested portion of the Paper Currency Reserve may be increased from 10 to 12 crores of rupees, and (2) that the additional amount thus to be invested may be held in London in gold securities of the Government of India or of the United Kingdom

2 I agree with your Government that the expansion of the note circulation which has taken place since 1896, when the present limit was fixed to the invested portion of the Paper Currency Reserve, has been sufficient to warrant the raising of that limit from 10 to 12 crores, and it also appears to me that the policy of investing in gold securities the sum which you propose to add to the invested portion of the Reserve is a sound one

3 I therefore authorise you to undertake the legislation necessary to give effect to your proposals

I have, &c

(Signed) St John Brodrick

Letter from Government of India No 6, dated 12th January 1911, to the Secretary of State for India

My Lord,

We have the honour to submit, for your favourable consideration, a proposal to amend Section 22 of the Indian Paper Currency Act, 1910 (II of 1910), so as to raise from one hundred and twenty to one hundred and forty millions of rupees, the amount of the Paper Currency Reserve which may be invested in securities and to raise from twenty to forty millions of rupees, the maximum which can be invested otherwise than in securities of the Government of India

2 The maximum limit of the invested reserve was raised in 1905 from 10 to 12 crores Since that time the net circulation of currency notes in India (excluding the amounts held in the Reserve Treasuries of Government and at the head offices of Presidency Banks), which is taken as an index to the permanent circulation among the public, has largely increased The statements appended to this despatch give the statistics of gross and net circulation for the six years ending 1909–10 The average and minimum net circulation in the past three years compare as follows with the corresponding figures in the three years preceding the last increase of the invested reserve in 1905 (*lakhs of Rupees*) —

	Three years ending 1904–05			Three years ending 1909–10	
	Average	Minimum		Average	Minimum
1902–03	25,74	23,93	1907–08	36,47	34,91
1903–04	28,70	27,44	1908–09	34,84	32,88
1904–05	30,69	29,63	1909–10	38,88	36,07
Average	28 38	27,00	Average	36,73	34,62

3 It will be seen that, while the sum of 12 crores to which the investment was raised in 1905 amounted to 42 28 per cent of the previous three years' average circulation and to 44 44 per cent of the average minimum circulation, a further increase to 14 crores now would put the investment at 38 11 per cent of the average circulation of 1907–10 and at 40 14 per cent of the average minimum circulation The latter triennium, as your Lordship is aware, included one year (1908–09) which was marked by serious trade depression We regard it as extremely unlikely that the minimum circulation will ever fall, at least for any prolonged period, below 30 crores and if against this we hold 16 crores in actual coin, the danger of inconvertibility will be very small We are confident therefore that the proposed increase to the investment is within the margin of safety

4 The proposal which we now submit first came under consideration in 1908, when we consulted the Presidency Banks and the Chambers of Commerce on the subject We enclose a copy of their replies It will be seen that, while they were unanimously of opinion that the investment could safely be increased to the extent proposed, there was a considerable feeling that it would be preferable to postpone the investment in favour of taking steps to promote the circulation of small value notes We were then on the point of recommending an extension of the system of universal currency notes, and it was apprehended that the experiment would require the retention of a somewhat larger coin reserve than might otherwise be necessary Another consideration which affected the proposal in 1908 was the weakness of exchange, which would have rendered inopportune any action tending towards further ease in the money market by the release of a large quantity of rupees from the Currency Reserve We, therefore, came to the conclusion that it was inadvisable to proceed with the proposal at the time

5 Since then the position has altered The weakness of exchange has passed, while the circulation of currency notes during 1909–10 was the highest on record Our currency notes up to Rs 50 have been "universalized," and we have had no experience of the inconveniences which it was feared might result It is true that prudence may require us to hold a stronger coin reserve at a number of distant points than was necessary under the old rigid "circle" system But, on the other hand the greater convertibility tends to raise the aggregate circulation and to reduce the violent fluctuations at different times of the year In our opinion the extension of the universal note system need no longer be considered a reason for deferring the increase in our investment if such a measure is otherwise desirable An objection sometimes urged against increasing the investment is that in order to supplement the Gold Standard Reserve, it is desirable to keep as large a quantity of gold in the Paper Currency Reserve as possible, and that every investment, by reducing the capacity of the Reserve for holding gold, reduces at the same time our resources for the maintenance of exchange in unfavourable seasons This argument might be pushed so far as to preclude

the possibility of any investment at all, and it is deprived of much of its force if the investment is made in securities which are readily convertible into gold

6 This leads us to consider the form which the investment should take When the invested reserve was last increased by two crores in 1905, the additional investment was made in sterling securities in England The three Presidency Banks and the Chambers of Commerce, Bombay, Madras and Karachi, now advise investment in rupee paper, while the Rangoon, Bengal, and Upper India Chambers of Commerce are in favour of sterling securities In our opinion the arguments in favour of the investment in sterling securities set forth in paragraphs 7, 8 and 9 of Lord Ampthill's despatch No 295, dated the 18th August 1904, still hold good We already have a sufficiently large holding in rupee paper, and there is an advantage in keeping a substantial part of the Reserve in a form of security which will not necessarily be influenced by the causes which might shake public confidence in our currency notes

7 We therefore solicit your Lordship's permission (by telegram, if possible) to introduce a Bill during the present Calcutta session to give effect to the proposals stated in the first paragraph of this despatch, on the understanding that, if the Bill becomes law, the additional investment will be made, under your orders, in gold securities

We have the honour to be,
My Lord,
Your Lordship's most obedient, humble Servants,
(Signed) HARDINGE OF PENSHURST
O'M CREAGH
G FLEETWOOD WILSON
J L JENKINS
R W CARLYLE
S H BUTLER
S A IMAM

Government of India (Finance Department)

Enclosures of Despatch No 6 of 1911

Enclosure No 1

No I —Statement showing the circulation of Paper Currency for all India
(In lakhs of Rupees)

Month	1904-05	1905-06	1906 07	1907-08	1908 09	1909-10
April	36,11	39 78	43,76	46,22	46 26	43 65
May	37,26	40 19	42,89	46 07	44 81	46,77
June	40,65	41,36	45,56	48,05	45,15	49 29
July	42 52	41,58	47,30	50,32	48,10	51 53
August	41 35	43,79	45,70	51,77	44,61	51,74
September	39,96	42 73	44,40	52,74	43,84	50 82
October	39 45	41 58	45 22	50,65	44 25	50,50
November	39,80	39,63	44,13	47,43	43,55	46 53
December	38,79	39 77	45,61	43,27	42 07	48,25
January	37 62	40 49	44,65	41,82	42,21	51,81
February	37,73	42 63	45,19	42,66	43 86	50,57
March	39,17	44 66	46,95	46,88	45,19	54,41
Average	39,20	41,52	45,14	47,32	44,52	49,66
Maximum	42,52	44,66	47,30	52,74	48,10	54,41
Minimum	36,11	39,63	42,89	41,82	42,07	43,65

Enclosure No 2

No II — Statement showing the circulation of Paper Currency, excluding amounts held by the Government Reserve Treasuries and by the Presidency Banks at their Head Offices (*In lakhs of Rupees*)

Month	1904-05	1905-06	1906-07	1907-08	1908-09	1909-10
April	29,64	31,06	34,74	38,14	34,58	37,30
May	29,63	31,92	33,08	37,44	33 10	36,09
June	30,61	31,96	33,12	37,15	32,88	36,07
July	31 21	32,70	34,19	36,64	33,46	36,30
August	30,84	31,09	34,13	36,14	33 40	37,06
September	30 47	32,13	35 21	37,28	34,62	38,69
October	30,09	33 24	36,30	36,94	35,77	38,80
November	30,13	32,68	37,12	36,49	35,96	38 47
December	31,82	33,36	38,12	35,69	35 79	40,05
January	31,38	33 81	37,91	35,17	35,44	42 50
February	31 39	34 63	38 28	35,69	36,24	42,66
March	31,03	35,35	38,89	34,91	36,85	42,57
Average	30,69	32,83	35 92	36,47	34,84	38,88
Maximum	31,82	35 35	38,89	38,14	36,85	42,66
Minimum	29 63	31,06	33,08	34,91	32,88	36 07

Enclosure No 3

Dated 26th November 1908

From Mr L G Dunbar, Officiating Secretary and Treasurer, Bank of Bengal, to the Secretary to the Government of India, Finance Department

I have the honour to acknowledge receipt of your letter, No 6104A, dated the 11th instant, asking for an expression of the opinion of the Directors of the Bank of Bengal whether it is expedient that the Government of India should take power to increase the invested portion of the Paper Currency Reserve from twelve crores to fourteen crores of rupees

2 In reply, I am instructed to say that, as the stock of coined rupees appears to be ample to meet all probable requirements, my Directors are of opinion that the proposed increase in the Currency investment may be undertaken with safety and to the advantage of the State

3 As regards the form of the new investment, my Directors consider the sum of Rs 2 crores, at present invested in sterling securities, sufficient for the purpose for which it is intended, and that the further investment, now under consideration, should be in the rupee paper of the Government of India

Enclosure No 4

No 338, dated 4th December 1908

From Mr J Begbie, Secretary and Treasurer, Bank of Bombay, to the Secretary to the Government of India, Finance Department

I have the honour to acknowledge receipt of your letter No 6404A, dated 11th ultimo, in which you request that the Directors of the Bank will favour the Government of India with an expression of their opinion whether it is expedient that the Government of India should take power by legislation to increase the invested portion of the Paper Currency Reserve from twelve to fourteen crores

2 In reply the Directors instruct me to say that the statistics of the net circulation of notes which accompanied your letter show a large and rapid decline during the twelve months ending 31st March last, and that it would appear to be advisable to see whether this decline continued during subsequent months, and if so, how far the decline was carried, before concluding that the average minimum circulation had permanently reached the level shown as the average for the three years ending March last Subject to this note of caution the Directors consider that the statistics warrant the addition to the invested portion of the reserve now suggested

3 With regard to the question whether the investment should be made in rupee or sterling securities, the Directors are of opinion that in the existing position of sterling exchange the investment should be made in securities of the Government of India

4 While agreeing that the statistical position shown in your letter would justify the further investment of the Reserve now proposed, the Directors venture to suggest for the consideration of the Government of India the desirability of postponing the investment and taking instead further steps in the direction of promoting an extended use of notes of small value as currency

5 They have specially in view at present the desirability of encouraging the extended use of Rs 10 notes It is through notes of low value that the greatest employment for notes as currency can be found amongst the population, and it is also through such notes that the greatest stability to the permanent circulation can be obtained It appears to the Directors that Government should endeavour to promote their circulation by relaxing as many of the restrictions now placed upon them as may be found possible

6 In every Currency Circle Rs 10 notes have proved to be the most popular of all the denominations issued, showing that the value of Rs 10 is most suitable for the requirements of the population, and this popularity has been attained without any special inducement being held out to encourage their employment But while the notes are in greater favour throughout India than any other note, it can be said only of the notes of the Calcutta and Bombay Circles that they have thoroughly established themselves as currency, because it is only in these two centres that their permanent circulation is of large dimensions

7 It would not be feasible to make all Rs 10 notes legal tender and encashable throughout India, but where they have come into continuous use in large quantities as in Calcutta and Bombay, it should be possible to encourage still further development

8 The suggestion the Directors desire to make is that Rs 10 notes of the Calcutta and Bombay Circles should be made legal tender and encashable at the pleasure of holders in either city Were this done the greater usefulness of the notes as a circulating medium would naturally lead to a permanent increase in their circulation

9 But if the notes are made legal tender they should also be encashable at will With regard to this point I have to say that the Directors believe the variation in the total circulation of Rs 10 notes in Calcutta and Bombay throughout the year is very small and that a comparatively minute cash reserve is sufficient to meet all demands for payment in coin Also, it may safely be assumed that very few of the existing Rs 10 notes outstanding at Calcutta would be presented for encashment in Bombay and *vice versâ*, because they are in use in the locality of the circle of issue For all practical purposes it would only be from any additional notes issued, that a new liability would be created on the cash reserves in each city, against which it would be advisable, to begin with, for the Currency Office at each place to be prepared for demands for encashment of notes of the other circle The

Directors understand however that the chief flow of money from Bombay to Calcutta takes place from about August until January and that the current is reversed after January The additional liability that would be thrown on each Currency Office would therefore be confined to well defined seasons of the year The Directors further understand that Government already provide for the cash requirements of Calcutta by remittance of coin in anticipation of the autumn demands and similarly provide for Bombay's coin requirements when the demand arises here But the total of such coin requirements at each place would not be increased by reason of Rs 10 notes being made encashable in either city The total amount of remittances from Bombay to Calcutta and *vice versâ* would not thereby be enhanced A larger part of the money transferred might perhaps be made in the form of Rs 10 notes than is now the case, but the total demands for coin arising out of transfers of money from one city to the other would remain unaffected It would however be safer, to start with, to hold rather larger cash balances until experience was acquired of the working of the scheme On the other hand, in view of the popularity of the notes at each centre the probability is that they would gradually cease to be presented for cash and be increasingly absorbed as currency in circulation The knowledge that they were legal tender and also exchangeable for coin at the pleasure of the holder in either city would bring about the usual result of making the notes still more popular and making them do duty where coin is now required

10 The Directors consider it would be sound policy to sacrifice the income from an immediate investment to secure the use of notes of small value as currency to a greater extent than is now the case When that is secured the amount of the Reserve that can safely be invested will be so much the greater

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Enclosure No 5

No 1306, dated 9th December 1908

From the Chairman, Chamber of Commerce, Bombay, to the Secretary to the Government of India, Finance Department

I am directed to acknowledge receipt of your Circular letter, No 6404A, dated Simla, 11th November 1908, requesting the Chamber to favour the Government of India with an expression of its opinion as to whether the Supreme Government should take power by legislation to increase the invested portion of the Paper Currency Reserve from twelve to fourteen crores

2 In reply I am to state that in the opinion of the Committee this forms part of a far larger question and my Committee beg to lay the following remarks before you for the consideration of the Government of India

3 As far back as 1868 the question of making notes of all Circles legal tender throughout India was brought forward, but at that time this Chamber, when asked its opinion by Bombay Government, advocated a Presidency Note in lieu of a universal note for all India, its reasons being that while the latter would be most acceptable, the time had not then come for adopting it

4 In 1900 this Chamber, in response to questions asked by the Government of India, stated *inter alia* that if Government could undertake to cash the notes of any Circle at Calcutta, Madras, or Bombay, it would afford considerable facility to trade and would tend to popularise the use of notes

5 This matter has now again been brought to the notice of my Committee and it has been pointed out that the fact of one Circle's notes not being legal tender in another Circle constitutes considerable hardship to trade In Bombay, for instance, many traders come down to make purchases and bring for that purpose notes of another Circle The result of this is that native

dealers present these notes to European firms, but, as they cannot be cashed in Bombay except at a discount, the firms are unable to accept them, and this constitutes constant friction between themselves and their dealers My Committee are therefore of opinion that if notes of all Circles could be made legal tender at the three Presidency towns, Calcutta, Madras, and Bombay, it would considerably facilitate trade between the Presidencies, and take away the difficulty referred to above They quite realise that by so doing Government would probably lose a certain profit which they now make by transfers from one Centre to another, as, provided the notes were made legal tender for the three Presidency towns, the actual transfer of bullion which might be required to meet trade requirements would be made at the expense of Government and not at that of the merchants But they consider that Government would be fully repaid indirectly by the increase in trade consequent on such facilities being granted and the increased confidence in and consequent use of currency notes instead of bullion

6 My Committee understand that at present considerable balances are retained in up-country treasuries, which balances might safely be reduced and increased amounts retained in the three Presidency Towns, which would probably be sufficient to meet the increased demands which might be made upon them if my Committee's proposal regarding all notes being made legal tender in the said chief towns should be carried into effect

7 It will be understood therefore that, holding these views, my Committee are not in favour of an increase in the invested portion of the Paper Currency Reserve, but would prefer to see increased facilities given to the public by making all notes legal tender in the three Presidency Towns If this is done they consider it will be inadvisable to reduce the available balances by increasing the investment as suggested Should, however, Government be unable to see their way to adopt the above suggestion, I am directed to state that my Committee agree that the invested portion of the Paper Currency Reserve might safely be increased as suggested, and as regards the nature of the investment to be selected they are of opinion that it is not desirable to make further investments in sterling securities but to invest the same in Rupee 3½ per cent Paper

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Enclosure No 6

Dated 8th December 1908

From the Chairman, Burma Chamber of Commerce, Rangoon, to the Secretary to the Government of India, Finance Department

I have the honour to acknowledge receipt of your letter, No 6104A, dated 11th November 1908, regarding the expediency of the Government of India taking the power by legislation to increase the invested portion of the Paper Currency from twelve to fourteen crores

2 I have the honour to inform you that while my Committee are of the opinion that not more than one-third of the reserve held against the currency note circulation should be invested in Government securities they do not see much objection to the small increase in the percentage which it is proposed to make, but hope it will not be further augmented in the future

3 If the proposed increase is determined upon, my Committee recommend that the further investment should be made in British Government securities, they being more readily realizable, in case of need, for purchases of silver

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Enclosure No 7

No G P L 131, dated 15th December 1908

From the Secretary and Treasurer, Bank of Madras, to the Secretary to the Government of India, Finance Department

I have the honour to acknowledge receipt of your letter, No 6404 x, dated the 11th November, requesting my Directors to express their opinion as to whether it is expedient that the Government of India should take power to increase the invested portion of the Paper Currency Reserve from twelve to fourteen crores, and in reply I am directed to say that my Directors are of opinion that, in view of the large increase in the circulation of currency notes, the proposed increase in the invested portion of the Reserve may be made with safety

2 I am further desired to say that my Directors consider that, in order to avoid frequent amendments of the Indian Paper Currency Act, Government might take powers by legislation to invest a fixed proportion of the value of notes in circulation In his letter No 6168, dated 23rd December 1889, Mr Finlay stated that in 1860 it was proposed to invest two-thirds but that it was decided that the safer and sounder principle was to prescribe a fixed sum as the limit What the reasons were for arriving at this decision are not stated, and though the investment of two-thirds of the Reserve might involve considerable risk, my Directors submit that, under present conditions, 35 per cent might safely be invested They think also that, should some such proportion be decided upon, it would be necessary, while leaving the permissive power to sell securities untouched, to add a sub-clause to Section 22 of the Act making it obligatory to sell should at any time the metallic reserve fall below a certain percentage of the notes in circulation —say 50 per cent

3 In your letter under reply my Directors are also asked whether they have any suggestions to make, if a further investment is determined upon, as to what form it should take, and in this connection I am desired to say, that unless the operation be postponed for a very considerable time, it would not appear to be possible to invest in securities of the United Kingdom without interfering with the building up of the Gold Standard Reserve Fund to its former level, and that therefore the present investment may be made in Government of India rupee paper

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Enclosure No 8

No 885, dated 16th December 1908

From the Secretary, Chamber of Commerce, Karachi, to the Secretary to the Government of India, Finance Department

I beg to acknowledge your letter No 6404x, of 11th November, regarding the proposal to increase the Paper Currency Reserve from twelve to fourteen crores of rupees I am directed by the Committee of this Chamber to inform you that they are of opinion that the Reserve might be increased as suggested providing that the same is made in securities of the Government of India

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Enclosure No 9

No 1977 dated 23rd December 1908

From the Secretary, Bengal Chamber of Commerce, to the Secretary to the Government of India, Finance Department

I am directed to acknowledge the receipt of your letter, No 6404x, dated 11th November 1908, in which you request an expression of opinion

by the Bengal Chamber of Commerce as to whether it is expedient to increase the invested portion of the Paper Currency Reserve from twelve to fourteen crores of rupees

2 In reply I am to say that the Committee of the Chamber have attentively examined this proposal They have read the past correspondence dealing with the increases which have been made since the limit of the invested portion of the Reserve was fixed, by the Paper Currency Act of 1861, at four crores of rupees And they endorse the principle upon which the investments have been made, namely, that the sum invested shall be well within the amount of notes which has been found by experience to be necessary for the monetary transactions of the country When the limit was raised in 1905, the sum of twelve crores of rupees amounted to 12 28 per cent on the average net circulation (*i e*, the gross circulation less the amount held in the Government Reserve Treasuries and at the head offices of the Presidency Banks), and to 44 40 per cent on the average minimum circulation The Committee of the Chamber were then of opinion that this was a sufficient margin of safety, and they consequently supported the suggested increase They similarly favour the present proposal, which if adopted will, they understand, bring the investment up to 39 92 per cent on the average of the net circulation for the last three years, and to 12 40 per cent on the average minimum

Letter No 931, dated 9th June 1904 from the Bengal Chamber of Commerce, to the Government of India, Finance and Commerce Department

3 In reply to your enquiry as to the form which the investment should take, I am likewise to refer to the views expressed by the Chamber when the last increase was under discussion The Committee then recommended that the investment should be made in sterling securities because such would be, they considered, more readily realised in London than rupee securities would be either in India or in England They are still of this opinion, and they venture therefore again to suggest that sterling securities should be purchased At the same time they are aware that the stock of gold coin and bullion in the Currency Reserve has now been so far depleted as not to exceed two and a quarter crores of rupees in England, and about Rs 15¾ lakhs in India This being the case, immediate investment in sterling securities may not be feasible, but nevertheless the Committee think that the principle should not be departed from They presume that, as on previous occasions, the intention is to invest gradually, and even though their recommendation may mean delay, they do not hesitate to put it forward For the investment in rupee securities should not be, they think, enlarged at present beyond the ten crores of rupees at which it stands, and which is a full amount in comparison with the two crores invested in sterling securities

* *Gazette of India*, 19th December 1908 Part II page 1848

Enclosure No 10

Dated 30th December 1908

From the Chairman, Chamber of Commerce, Madras, to the Secretary to the Government of India, Finance Department

I have the honour to inform you in reply to your letter, No 6404A, dated the 11th November 1908, that the Chamber considers that, in view of the large increase in the circulation of Currency notes since 1905, the Government of India might safely increase the invested portion of the Paper Currency Reserve from Rs 12 to 14 crores, when a suitable opportunity presents itself, and the investment should, at present at all events, be in Government of India rupee paper

2 In this connection the Chamber would suggest for consideration the desirability of the Government of India taking power by legislation to invest

a fixed proportion of the Currency notes in circulation in order to obviate the necessity of frequent revisions of the Paper Currency Act The Chamber would suggest 35 per cent as a reasonable and safe proportion to invest, provided that, while the power to sell securities is not interfered with, Section 22 of the Act is amended by the addition of a sub-clause rendering a sale obligatory if and when the metallic reserve touches a point below, say, 50 per cent of the notes in circulation

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Enclosure No 11

Dated 15th March 1909

From A Shakespear, Esq , Secretary, Upper India Chamber of Commerce, to the Secretary to the Government of India, Finance Department

I am directed to acknowledge receipt of your letter No 6401 , of the 11th November last, in which you invite the views of this Chamber upon a proposal to increase the invested portion of the Paper Currency Reserve from 12 crores to 14 crores

2 My Committee have studied the history of the Paper Currency Reserve, and they are of opinion that the proportion held in the form of securities might with safety be increased to 14 crores, having regard to the expansion which has taken place since 1905 in the amount of Currency notes actually in use by the public

3 Concerning the question of the form in which investments should be made, my Committee have come to the conclusion that sterling securities should be selected, on the ground that generally speaking they are more realisable than rupee securities In making this recommendation they have not overlooked the benefit to the market value of rupee securities which might reasonably be expected to follow further investments by Government At the same time they are conscious of the depressing effect which would result from Government being obliged in times of emergency to realise on its holdings

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Telegram from Secretary of State to Viceroy, Finance Department, 14th February 1911

Your Despatch dated 12th January, No 6 Indian Paper Currency Act I approve amendment proposed and sterling investment

Note III

(See paragraph 22 of Memorandum, page 242.)

Remittance of 5,000,000*l.* in gold from India to be held in England as part of the Paper Currency Reserve. Correspondence in 1905 between Secretary of State and Government of India.

Despatch to Government of India, No. 41 (Financial), dated 7th April 1905.

My Lord,

In my telegram dated 9th March last, while accepting your proposal that the remittance of two crores of rupees to this country which will be required for the investment on account of the Paper Currency Reserve shall be made by means of Council drawings, I added that I should address you further on the subject of remittances of gold.

2. The question of the amount of gold that can be conveniently held in the Paper Currency Reserve in India was discussed by Your Excellency in your letters of 14th December 1899 (No. 121), and 6th September 1900 (No. 302). In the latter communication it was suggested that 7,000,000*l.* should be regarded as the maximum, and this proposal was provisionally accepted in Lord George Hamilton's Despatch No. 232, of 13th December 1900. The question was again considered by you last year in connection with your proposal to increase the amount invested on behalf of the Paper Currency Reserve, and in your letter of 18th August last, No. 295, you stated that in your opinion a stock of gold of the value of 9¼ crores (6,167,000*l.*) in the reserve would be ample and that a larger proportion is not at present required in India. You also stated that you have found by experience that at the beginning of the busy season the proportion of silver coin in the Currency Reserve should be approximately one-third of the total note circulation. As the gold held in the reserve has not fallen below 9,000,000*l.* during the last two years, and has during the whole period since March 1904 exceeded 10,000,000*l.*, I assumed, when agreeing that the invested portion of the reserve shall be increased by the substitution of sterling securities for two crores of the metallic portion, that it was your intention to remit gold to England for the purchase of the securities. In deference to the representations made in your telegram of 8th March 1905, I have agreed that the remittance shall be made by means of Council Bills. But I should be glad if you would consider whether the amount of gold held in India should not nevertheless be reduced.

3. According to the statement for the 9th of March 1905, which is the latest before me, the composition of the Currency Reserve on that date was as follows:—

	Crores
Securities	10
Silver coin	9·07
Silver bullion	1·88
Gold	16·47
Total	37·42

The amount of silver coin was considerably below the proportion of one-third mentioned above, and when an investment of two crores is made in England, and the metallic reserve in India is reduced, the reduction will presumably be effected wholly or in part by the transfer of rupees to the ordinary treasuries

4 In view of these figures it appears to me that there would be some advantage in remitting gold to England early in the present financial year

Having regard to the state of your balances as described in your telegram of 8th March, it would perhaps be the more convenient course that gold so remitted should in the first instance be held as a part of the Paper Currency Reserve at the Bank of England It could be used, if a favourable opportunity occurs in the near future, for the purchase of silver in anticipation of future requirements, or, if you are unwilling at present to anticipate requirements, it could be held at the Bank so as to be immediately available for the purchase of silver whenever the need for additional coinage may arise It is also to be remembered that the possession of a stock of gold in England, held as a portion of the Paper Currency Reserve, but capable of being transferred to the ordinary balances of the Secretary of State in Council, against a corresponding transfer of rupees from your balances to the Currency Reserve in India, affords a method (which might in certain circumstances be very useful), of speedily replenishing the balances of the Secretary of State in Council

5 I shall be glad to receive an expression of your views on the points discussed in this Despatch

I have the honour to be,
My Lord,
Your Lordship's most obedient humble Servant,
(Signed) ST JOHN BRODRICK

Letter from Government of India, No 236 of 1905 (Finance Department), dated 29th June 1905, to the Right Honourable St John Brodrick, His Majesty's Secretary of State for India

Sir,

We have the honour to refer to your Financial Despatch No 41, dated the 7th April 1905, on the subject of the amount of gold held in the Paper Currency Reserve You cite various opinions which the Government of India have expressed at different times as to the amounts of gold and silver respectively which should be held in the Reserve, and you ask us to consider whether in view of the large stock of gold now held in India, a portion of it should not be remitted to England You also suggest that it might be convenient to hold the gold so remitted in the first instance as a part of the Paper Currency Reserve at the Bank of England, and you point out certain advantages which would attach to the possession of such a stock of gold in England

2 In the previous discussions to which you refer concerning the amount of gold that can conveniently be held in the Reserve, our views were influenced by the sudden demands which had arisen for the provision of rupees in India, and by anxiety lest the presence of a large stock of gold should hamper us in meeting those demands Our position in this respect has been greatly strengthened by the large increase that has taken place in the note circulation in the last few years, and by the formation of a special ingot reserve of three crores of tolas of silver, as proposed in our Despatch

No 121, dated 28th April 1901 The position will, we think, be made still more secure if you accept the proposal put forward in our Despatch No 143 of the 27th of April last, for the annual purchase of silver in anticipation of actual requirements

3 The object of this proposal was to secure a sufficient supply of rupees to meet all urgent demands, and so long as this object is effected we see no cause for anxiety in the accumulation of a large stock of gold On the contrary we consider that the balance of the uninvested portion of the Reserve which is not likely to be required for circulation as money ought to be held in gold rather than in silver, and that the possession of a large stock of the yellow metal will strengthen our credit and contribute to the stability of exchange Subject, therefore, to the provision of sufficient rupees and reserves of silver, we would allow our stock of gold to grow indefinitely with the expansion of the note circulation until such time as it may be deemed expedient to make a further addition to the invested portion of the Reserve

4 We do not, however, consider it in any way necessary that the whole of the gold should be held in India As pointed out in the second paragraph of your Despatch under reply we expressed the opinion in August last that a stock of $9\frac{1}{4}$ crores in the Reserve furnishes, under present circumstances, an ample maximum for Indian purposes, and one of the objects of the recent revision of the Paper Currency Act was to facilitate the transfer of the gold portion of the Reserve between India and England We would in this connection invite attention to the remarks made by our Honourable Financial Colleague when moving on the 11th of March last that the Report of the Select Committee on the amending Bill should be taken into consideration The Honourable Mr Baker then observed that "so far as gold is concerned, " the coin held in London is actually one stage nearer the point at which it " becomes effective for securing the encashment of notes than when it is in " India "

5 We are accordingly disposed to welcome your suggestion that a portion of our stock of gold should be remitted to London and held as a part of the Paper Currency Reserve at the Bank of England To the advantages which you have enumerated as attending this measure we would add that it will enable you to make purchases of silver quietly without giving the forewarning to the market which is entailed by the present system of making separate remittances for each purchase

6 We therefore propose to send 5,000,000*l* (five million pounds) in gold to London to be held by you as a part of the Currency Reserve When you draw on this fund for the purpose of purchasing of silver, we would ask you to replenish it from time to time by the sale of Council Bills, at your convenience, and to inform us on each occasion of any intended operation on the fund, so that we can adapt our arrangements accordingly In the event of the demand for Council Bills being slack at any time, you would be able after warning us to replenish the Reserve in India, to utilise your stock of currency gold for Treasury payments If this proposal meets with your approval we should be glad to be informed as soon as possible in order that early arrangements may be made for shipping the gold

7 With reference to the remarks in paragraph 3 of your Despatch regarding the amount of silver coin held in the Paper Currency Reserve in March last, we would point out that the standard of one-third of the total note circulation referred to in our Despatch of the 18th of August 1904 was suggested as sufficient at the opening of the busy season, and that that season was drawing to its close on the 9th of March We take this opportunity of explaining that the standard which we suggested last year on Sir Edward Law's advice was a rough estimate only, and that we do not at present consider that we have sufficient data or experience for laying down any arithmetical criterion We attach more importance to the proposals stated in our Despatch of the 27th of April last for anticipating requirements than to the maintenance of any fixed proportion of rupees to

the note circulation, and in any event, we do not consider that the gross circulation, which includes notes held in the Reserve Treasuries, could in any circumstances be treated as the basis of such a criterion

We have the honour to be,
Sir,
Your most obedient, humble Servants,
(Signed) CURZON
" KITCHENER
" E R ELLES
" A T ARUNDEL
" H E RICHARDS
" J P HEWETT
" E N BAKER
" C L TUPPER

Despatch to Government of India, No 91 (Financial), dated 11th August 1905

My Lord,

In your letter of the 29th of June, No 236, you accept the suggestion made in my Despatch of 7th April, No 41, that a portion of your stock of gold should be sent to this country to be held as a part of the Paper Currency Reserve, and you propose to make early arrangements for the shipment of 5,000,000*l* I understand that you desire that the 1,000,000*l* shipped on the 8th of July, as reported in your telegram of the 6th July, may be regarded as a portion of this 5,000,000*l*

2 I approve the proposal that a further 4,000,000*l* shall be sent It should be consigned in instalments of not more than 1,000,000*l*, and you should inform me by telegraph when each consignment is about to be made

3 When the gold held in England is drawn upon for the purchase of silver it is possible that in some cases the most convenient arrangement for keeping the total Currency Reserve up to the required amount will be that contemplated in Sections 17 and 19 of Act III of 1905, viz, to treat the silver purchased as a portion of the reserve The stock of gold in England can subsequently be replenished, as you propose, from the proceeds of Council Bills (if the state of the Home Treasury balances admits of this) so as to release rupees from the Currency Reserve in India This procedure would obviate the necessity for making transfers in India from the Treasury to the Paper Currency Department at the time of the purchase of the silver, which I understand to be the course suggested in the sixth paragraph of your letter

4 For the present, however, the silver that is being purchased in accordance with the requests contained in your telegram of the 5th April, your letter of the 27th April, and your telegram of the 30th June, is being paid for from the balances of the Home Treasury, so that the whole 5,000,000*l* of gold will be held from the time of its arrival as a part of the Paper Currency Reserve

5 I forward a copy of a letter to the Bank of England requesting them to take the necessary measures

6 I also forward a copy of a note by the Deputy Accountant-General at this Office, from which it will be seen that it is desirable that you should announce (in the manner that appears to you most convenient) that the shipments are to be made on behalf of the Paper Currency Reserve, and not for the purpose of replenishing the balances of the Secretary of State for India in Council

I have the honour to be,
My Lord,
Your Lordship's most obedient humble Servant,
(Signed) ST JOHN BRODRICK

Enclosure No 1

India Office to Bank of England

F 5156 India Office,
Gentlemen, 28th July 1905

I am directed to inform you that the Government of India intend to consign to this country during the present year 4,000,000*l* in gold in addition to the 1,000,000*l* referred to in the correspondence ending with Mr Nairne's letter of the 7th July

The whole 5,000,000*l* will for the present be treated under the arrangements contemplated in the Indian Paper Currency Act, 1905, (of which a copy is enclosed for your information) as being a part of the reserve to secure the payment of currency notes issued in India

I am to enquire whether you will be so good as to hold the gold on behalf of the Secretary of State in Council on a separate account distinct from his cash and drawing accounts

Portions of the amount so held may from time to time be used for the purchase of silver or for other purposes, and in this event a transfer to the Secretary of State's cash account will be required, and the necessary instructions will be given by this Office

I have, &c,
(Sd) A GODLEY

The Governor and Company of the
Bank of England

Enclosure No 2

Note by the Deputy Accountant-General, India Office, dated 22nd July 1905

I have to suggest, for consideration, that in view of the magnitude of the operation it might be desirable to take some steps to acquaint the market that the gold to be shipped will not be available for the purposes of loans from the Secretary of State's balances The Broker has recently mentioned to me on several occasions that the publication by the newspapers of the intended shipment of gold, which is usually announced by the news agencies directly the freight is arranged in India, has a distinct effect on the rates he is able to obtain for our loans The firms on the borrowing list occasionally quote the information to him, and either decline to renew in the expectation of cheaper money and supply themselves instead from other sources with weekly or other short term loans, or else make the news the pretext for offering a lower rate of interest than would otherwise be obtained In this case the shipments of gold will be large, and will perhaps spread over some time I see from to-day's "Times" that a rumour as to a further shipment is already afloat

(Sd) H W BADOCK

APPENDIX IX

FIGURES of TRADE between INDIA AND CHINA (excluding Government Stores and Treasure), handed in by Mr F W Newmarch, Financial Secretary to the India Office (*see* Question 1399)

Years		Exports to China: Merchandise	Exports to China: Treasure	Total	Imports from China: Merchandise	Imports from China: Treasure	Total
		£	£	£	£	£	£
I 1888-89	Hong Kong	7,318,541	19,133	7,337,674	1,020 288	1,138 231	2,158,522
	Treaty Ports	2 115,479	6 712	2 122,191	254 269	777,659	1,031 928
1889-90	Hong Kong	7,214 223	19,104	7,232,327	1,338 733	901 041	2 239,774
	Treaty Ports	2,077,923	—	2,077,923	291,268	609,721	903,989
1890-91	Hong Kong	6,415,548	267	6,415,815	1,312,559	2,020 546	3,333,105
	Treaty Ports	3,211,382	55,901	3,267,283	300,971	1,041,586	1 342,557
1891-92	Hong Kong	6,136,600	—	6,136,600	1,491,401	1,793,142	3 287,543
	Treaty Ports	3,079,066	—	3 079,066	423,691	670 546	1,094 237
1892-93	Hong Kong	6,169,606	—	6 169,606	1 497,944	749,696	2,247,640
	Treaty Ports	3,532,705	—	3,532,705	397,076	262,100	659,476
Yearly average		9,454,011	20 223	9,474,238	1,666,840	1,992,914	3,659,754
II 1893-94	Hong Kong	4,352,475	32,128	4,384,603	1,706,175	638 817	2 344,992
	Treaty Ports	3,067,073	75,634	3 142,707	655,529	166,134	821,663
1894-95	Hong Kong	5,109,197	14,649	5,123,846	1,178,983	294,665	1 473 648
	Treaty Ports	3,054,734	6,162	3,060,896	596,322	44 175	640,497
1895-96	Hong Kong	5 500,239	72,284	5,572,523	1,144,803	211,970	1 356 773
	Treaty Ports	3,799,287	6,998	3,806,285	725,768	46,961	772,729
1896-97	Hong Kong	5,585,851	17,324	5,603,175	946,962	293,539	1 240,501
	Treaty Ports	3,626,537	—	3,626 537	485,763	24,076	509,839
1897-98	Hong Kong	5,130,209	335,046	5,465,255	861,235	600,858	1,462 093
	Treaty Ports	3,021,117	—	3,021,117	266,105	195,592	461,697
Yearly average		8,509,284	112,105	8,621,389	1,713,529	503,357	2,216 886
Percentage of increase or decrease as compared with period No I		*—9 993*	+451 333	*—9 002*	+2 801	*—74 743*	*—39 425*
III 1898-99	Hong Kong	5,385,908	196,098	5,582,006	767,251	617,399	1,384 650
	Treaty Ports	3,183,352	—	3,183 352	360,675	378,075	738,750
1899-1900	Hong Kong	5 391,240	194,153	5,585,393	734 529	586 320	1,320 849
	Treaty Ports	4,085,693	10,974	4,096 667	329,729	27,602	357,331
1900-01	Hong Kong	5,344,945	97,827	5,442,772	1 067,684	486 290	1,553 974
	Treaty Ports	2,553,717	118,133	2,671,880	630 442	471	630 913
1901-02	Hong Kong	6,639,183	60,022	6,699 205	726,019	541,731	1,267,750
	Treaty Ports	5,152,881	—	5,152,881	467,881	285	468,166
1902-03	Hong Kong	6,284,774	193,984	6,478 758	1,004,042	926 686	1,930,728
	Treaty Ports	4,377,128	47 041	4,424,172	461,624	425,377	887 001
Yearly average		9,679,830	183,647	9,863,477	1,309,975	798,053	2,108 028
Percentage of increase or decrease as compared with period No II		+13 756	+63 817	+14 407	*—23 551*	+58 546	*—4 910*
IV 1903-04	Hong Kong	7,344,602	136,976	7,481 578	822,833	602 005	1 424,838
	China*	4,696 066	307 442	5,003 508	495,148	210 020	705,168
1904-05	Hong Kong	7,738,299	60,191	7,798,490	820,993	899,934	1,720,927
	China	5,399,208	—	5,399,208	461,082	211,876	672,958
1905-06	Hong Kong	8,943,799	65,000	9,008,799	679,440	625,095	1,304 535
	China	5,384,014	9,265	5,393,279	503,651	157,970	661,621
1906-07	Hong Kong	7 367,193	53	7,367,246	561,809	704,212	1,266,021
	China	5,327,007	—	5,327,007	433,922	111 239	545,161
1907-08	Hong Kong	5,766,166	214,816	5,981,282	746,565	985,854	1,732,419
	China	4,341 021	10,653	4,351,674	718,668	88,804	807,472
Yearly average		12,461,535	160,879	12,622,414	1,248,822	919,402	2 168,224
Percentage of increase or decrease as compared with period No III		+28 737	*—12 308*	+27 971	*—4 668*	+15 206	+2 856
Comparing the last with the first quinquennial group the percentages of increases or decreases are		+31 812	+695 508	+33 229	*—25 078*	*—53 866*	*—40 755*

* Exclusive of Hong Kong and Macao

FIGURES of TRADE between—

(1) BRITISH INDIA and the UNITED KINGDOM

(2) CHINA and the UNITED KINGDOM

(Figures taken from the Statistical Abstract for the United Kingdom, except those relating to movements of Treasure between India and the United Kingdom, these are taken from the Indian Trade Tables)

(1) *British India*

Year	Exports to United Kingdom			Imports from United Kingdom		
	Merchandise	Bullion and Specie *	Total	Merchandise	Bullion and Specie *	Total
	£	£	£	£	£	£
I 1889 - - -	36,199,204	239,254	36,438,458	32,429,249	7,322,766	39,752,015
I 1890 - - -	32,668,797	423,852	33,092,649	35,230,114	8,929,659	44,159,773
I 1891 - - -	32,234,398	820,534	33,054,932	32,549,207	5,326,239	37,875,446
I 1892 - - -	30,513,106	3,236,446	33,749,552	29,047,287	7,286,212	36,333,499
I 1893 - - -	26,233,949	1,183,146	27,417,095	29,931,554	9,605,867	39,537,421
Yearly average -	31,569,891	1,180,646	32,750,537	31,837,482	7,694,149	39,531,631
II 1894 - - -	27,648,857	4,331,355	31,980,212	30,114,943	6,109,748	36,224,691
II 1895 - - -	26,431,315	2,248,824	28,680,139	25,487,089	5,398,963	30,886,052
II 1896 - - -	25,285,467	1,411,146	26,696,613	30,841,551	5,774,218	36,615,769
II 1897 - - -	24,813,099	1,470,266	26,283,365	28,009,385	8,489,873	36,499,258
II 1898 - - -	27,170,081	1,613,651	29,083,732	30,362,934	7,980,878	38,343,812
Yearly average -	26,329,764	2,215,049	24,544,813	28,963,180	6,750,736	35,713,916
Percentage of increase or decrease in comparison with period No I - - -	− *16 598*	+ 87 613	− *25 055*	− *9 028*	− *12 261*	− *9 657*
III 1899 - - -	27,740,503	1,644,578	29,385,081	31,967,811	7,242,597	39,210,408
III 1900 - - -	27,388,106	2,309,769	29,697,875	30,966,938	5,756,286	36,723,224
III 1901 - - -	27,391,734	2,157,144	29,548,878	35,746,399	7,515,273	43,261,672
III 1902 - - -	28,724,006	1,973,397	30,697,403	33,491,035	8,214,786	41,705,821
III 1903 - - -	32,304,747	2,363,391	34,668,138	35,320,217	7,776,919	43,097,136
Yearly average -	28,709,819	2,089,656	30,799,475	33,498,480	7,301,172	40,799,652
Percentage of increase or decrease in comparison with period No II - - -	+ 9 039	− *5 661*	+ 25 483	+ 15 659	+ 8 154	+ 14 240
IV 1904 - - -	36,472,636	2,347,970	38,820,606	41,544,494	8,475,463	50,019,957
IV 1905 - - -	36,062,291	2,356,824	38,419,115	44,361,153	7,147,852	51,509,005
IV 1906 - - -	37,833,460	2,179,705	40,013,165	46,110,498	8,990,708	55,101,206
IV 1907 - - -	43,939,184	2,117,948	46,057,132	53,311,127	11,507,161	64,818,288
IV 1908 - - -	29,615,570	2,161,840	31,777,410	50,844,283	11,812,348	62,656,631
Yearly average -	36,784,628	2,232,857	39,017,485	47,294,311	9,586,706	56,881,017
Percentage of increase or decrease in comparison with period No III - - -	+ 28 126	+ 6 853	+ 26 682	+ 41 183	+ 31 304	+ 39 415
Comparing the last with the first quinquennial group, the percentages of increase or decrese are - -	+ 16 518	+ 89 122	+ 19 135	+ 48 549	+ 24 597	+ 43 887

* Rupees converted into sterling at the exchange of Rs 15 = 1*l*

Trade between British India, China, and the United Kingdom—*continued*

(2) China

Year		Exports to United Kingdom: Merchandise, Hong Kong	Merchandise, Other Ports	Treasure, Hong Kong	Treasure, Other Ports	Total, Hong Kong	Total, Other Ports	Grand Total
		£	£	£	£	£	£	£
I	1889	1 129 190	6 115 591	356 517	241,676	1 485,707	6 357,267	7,842 974
	1890	1,226,064	4 830 550	173,918	142,011	1 399 012	4 972 961	6,371 873
	1891	1 101,702	4,731 508	582 291	556 891	1,683 993	5 270 399	6 951,192
	1892	836,705	3,583,218	697,626	1 751 202	1,534 331	5 334 450	6 868 781
	1893	885,634	3 894,258	517 409	927 906	1 401 041	4 822 164	6 225,207
	Yearly average	1,035,655	4 627,491	465 558	723 937	1 501 217	5 351 425	6,852 615
II	1894	630 818	1 543 362	580 691	1,177,507	1,211,511	6 020 869	6 232 380
	1895	759,441	3 113 865	162 296	651 693	1 221,717	1995,558	5 217 295
	1896	797 158	2 971 887	226,522	858 736	1 021 680	1 832,621	4 866,303
	1897	606,314	2,684,722	194 465	198,601	800,779	3 183 226	3 981 005
	1898	726,637	2 668,061	221 186	1 166,609	918,123	3,834,571	4 752,696
	Yearly average	704 073	3 012 780	337 092	930 590	1 041 165	3 973 370	5,014,535
Percentage of increase or decrease in comparison with Period No I		− 32 017	− 54 215	− 27 595	+ 28 546	− 30 645	− 25 751	− 26 825
III	1899	881,126	3,069,452	340	200	881 466	3 069 652	3 951,118
	1900	1,066 048	2,359,821	47 346	20,268	1 113 394	2 380 089	3 493 481
	1901	602,841	2,146 149	224 428	12,134	827 269	2 158 281	2 985 522
	1902	610 398	2 107,207	125 005	31,451	735 403	2,141 658	3,177 061
	1903	582,764	2,679,367	104 565	13 891	687 329	2,713 258	3 400 587
	Yearly average	749,035	2,526,393	100,337	26 489	849 372	2 502 882	3 401 951
Percentage of increase or decrease in comparison with Period No II		+ 6 186	− 16 971	− 70 235	− 97 156	− 18 421	− 5 758	− 32 158
IV	1904	466 811	2 761 841	75 000	21 096	541 811	2 782 936	3 324 747
	1905	386 440	2,310 346	—	—	386 440	2 340 346	2 726,786
	1906	638,507	3 314,463	325 144	—	963 651	1 314 451	4 278 101
	1907	618,860	3 471 931	78 333	349 064	697 193	3 820 997	4 518 190
	1908	547 339	3 039 613	—	2 520	547 339	3 042 133	3 589 172
	Yearly average	531,591	2 985,637	95 695	74 536	627 286	3 060,173	3 687,459
Percentage of increase or decrease in comparison with Period No III		− 29 030	+ 18 478	− 4 626	+ 181 608	− 26 147	+ 19 885	+ 8 392
Comparing the last with the first quinquennial group, the percentages of increase or decrease are		− 48 671	− 35 480	− 79 445	− 89 704	− 58 215	− 42 516	− 46 159

Year		Imports from United Kingdom: Merchandise, Hong Kong	Merchandise, Other Ports	Treasure, Hong Kong	Treasure, Other Ports	Total, Hong Kong	Total, Other Ports	Grand Total
		£	£	£	£	£	£	£
I	1889	2 388,629	5,188 866	336,171	68 240	2,725,100	5 257,106	7,982,206
	1890	2 741 401	6,763 221	330 910	121 100	3,072 344	6,884,521	9,956,865
	1891	2,732,157	6,525 662	260,151	22 180	2,992,308	6,547,812	9,540,160
	1892	1,972 935	5 816 597	180 934	70 300	2,153,869	5 886,897	8,040,766
	1893	1 935 419	4 699,336	1 663 997	670 900	1 599,416	5 370,236	8,969,652
	Yearly average	2 354 109	5,802 736	554,499	186 581	2 908,608	5,989,320	8,897,928
II	1894	1,980 227	4 592 110	2,170 959	980 250	1,151,186	5,572,370	9,723,556
	1895	2 044,616	5 363 536	1,313,597	716 180	3,358,213	6,079,716	9,137,929
	1896	1 959,209	6 860,896	675,151	106 400	2 634,360	6,967,296	9,601,656
	1897	2,079,951	5 179,767	376,003	164 200	2,455,954	5,313,967	7,799,921
	1898	2 347 689	5 099,497	631,507	178 450	2 979,196	5,277,947	8,257,143
	Yearly average	2,082,338	5 119,167	1 033,111	429,092	3 115,781	5,848,259	8,964,040
Percentage of increase or decrease in comparison with Period No I		− 11 545	− 0 610	+ 86 374	+ 129 973	+ 7 123	− 2 355	+ 713
III	1899	2 862 345	7 136,706	553,891	1,587 350	3,416,236	8,724,056	12,140,292
	1900	2,956,262	5 614,313	870 081	1,808,300	3 826,346	7,442,613	11,268,959
	1901	2,797 978	6 827 546	619,966	651 680	3 117,944	7,479 226	10,897,170
	1902	2 274 217	7 188 810	216 135	274 200	2 490 352	7 163 010	9 953,362
	1903	2,891 710	6 798,015	246 801	114,100	3 138,511	6 912 115	10,050,626
	Yearly average	2,756 503	6 717 078	501,375	887 126	3 257 878	7,604,201	10 862,082
Percentage of increase or decrease in comparison with Period No II		+ 32 375	+ 23 950	− 51 185	+ 106 745	+ 4 561	+ 30 025	+ 21 174
IV	1904	4 574 767	8 885,950	486 957	84 000	5 061,724	8 973 950	14,035,671
	1905	3,844 735	13 298,828	404 841	856 330	1,246,576	13,855,158	18,104,734
	1906	3 220 498	12,306 188	283 957	150,000	3,504 155	12 456,488	15 960 643
	1907	3 355,103	12 437 977	183 250	376 200	3,538,653	12,514,177	16,052,830
	1908	3 088,310	9,292,287	95,000	727 300	3,183,340	10,019,587	13,202,927
	Yearly average	3,616 149	11 185,046	290 801	378 766	3 906,950	11 563,812	15,470,762
Percentage of increase or decrease in comparison with Period No III		+ 31 186	+ 66 517	− 41 999	− 57 304	+ 19 923	+ 52 071	+ 42 429
Comparing the last with the first quinquennial group, the percentages of increase or decrease are		+ 53 610	+ 92 765	− 47 556	+ 103 000	+ 34 324	+ 93 074	+ 73 869

FIGURES of TRADE between INDIA and PERSIA (excluding GOVERNMENT STORES and TREASURE)

—	Exports to Persia		Total	Imports from Persia		Total
	Merchandise	Treasure		Merchandise	Treasure	
	£	£	£	£	£	£
I 1888-89	955,207	123,398	1,078,605	487,305	53,326	540,631
I 1889-90	1,148,470	69,926	1,218,396	535,944	87,306	623 250
I 1890-91	1,160,629	35,621	1,196,250	473,455	124,907	598,362
I 1891-92	1,342,234	73,831	1,416,065	473,332	72,416	545,748
I 1892-93	1,266,524	77,240	1,343,764	458,061	54,348	512,409
Yearly average	1,174,613	76,003	1,250,616	485,619	78,461	564,080
II 1893-94	1,224,747	102,260	1,327,007	489,470	120,539	610,009
II 1894-95	1,586,717	61,463	1,648,180	529,785	116,575	646,360
II 1895-96	1,142,959	61,592	1,204,551	581,865	83,960	665,825
II 1896-97	890,674	74,586	965,260	457,322	101,355	558,677
II 1897-98	936,074	14,709	950,783	461,275	73,365	534,640
Yearly average	1,156,234	62,922	1,219,156	503,943	99,159	603,102
Percentage of increase or decrease in comparison with period No I	*−1 565*	*−17 211*	*−2 516*	+3 773	+26 380	+6 918
III 1898-99	1,041,321	36,425	1,077,746	389,302	91,775	481,077
III 1899-1900	740,902	66,286	807,188	551,955	80,729	632,684
III 1900-01	883,315	92,447	975,762	475,798	62,634	538,432
III 1901-02	817,171	85,153	902,324	452,036	48,950	500,986
III 1902-03	804,741	31,597	836,338	432,257	39,121	471,378
Yearly average	857,490	62,382	919,872	460,269	64,642	524,911
Percentage of increase or decrease in comparison with period No II	*−25 838*	*−0 859*	*−24 549*	*−8 666*	*−34 810*	*−12 965*
IV 1903-04	735,632	124,571	860,203	291,640	34,323	325,963
IV 1904-05	716,850	77,834	794,684	294,048	99,419	393,467
IV 1905-06	625,366	46,303	671,669	288,315	171,241	459,556
IV 1906-07	617,174	61,938	679,112	317,774	103,617	421,391
IV 1907-08	799,719	69,979	869,698	288,838	76,049	364,887
Yearly average	698,948	76,125	775,073	296,123	96,929	393,052
Percentage of increase or decrease in comparison with period No III	*−18 489*	+22 031	*−15 741*	*−35 663*	+49 919	*−25 120*
Comparing the first with the last quinquennial group the percentages of increases or decreases are	*−40 495*	+0 160	*−38 025*	*−39 022*	+23 539	*−30 320*

FIGURES of TRADE between INDIA and other COUNTRIES, excluding CHINA and PERSIA (Government Stores and Treasure omitted)

Years	Exports from India		Total	Imports into India		Total
	Merchandise	Treasure		Merchandise	Treasure	
	£	£	£	£	£	£
I 1888-89 - -	54,262,887	986,422	55,249,309	42,618,350	7,260,754	49,879,104
I 1889-90 - -	58,491,625	1,138,917	59,630,542	42,204,469	10,041,466	52,245,935
I 1890-91 - -	55,969,589	1,289,482	57,259,071	43,936,282	11,425,952	55,362,234
I 1891-92 - -	61,466,107	2,021,626	63,487,733	42,000,214	7,279,004	49,279,218
I 1892-93 - -	60,055,163	4,512,089	64,567,252	39,383,606	10,273,429	49,657,035
Yearly average -	58,049,071	1,995,707	60,044,781	42,028,584	9,256,121	51,284,705
II 1893-94 - -	62,320,765	2,473,136	64,793,901	46,453,464	11,358,014	57,811,478
II 1894-95 - -	62,492,985	5,356,104	67,849,089	44,473,202	5,917,257	50,390,459
II 1895-96 - -	65,732,942	2,680,660	68,413,602	43,668,494	8,563,099	52,231,593
II 1896-97 - -	59,173,136	3,192,017	62,365,153	46,053,084	8,297,932	54,351,016
II 1897-98 - -	55,937,449	4,406,358	60,343,807	44,691,465	12,781,043	57,472,508
Yearly average -	61,131,455	3,621,655	64,753,110	45,067,941	9,383,469	54,451,410
Percentage of increase or decrease in comparison with period No I - - -	+5 316	+81 472	+7 841	+7 232	+1 376	+6 175
III 1898-99 - -	65,537,068	4,706,264	70,243,332	44,069,666	10,835,389	54,905,055
III 1899-1900 - -	62,432,956	5,028,614	67,461,570	45,525,029	13,277,691	58,802,720
III 1900-01 - -	62,797,346	4,674,563	67,471,909	48,678,000	10,426,314	59,104,314
III 1901-02 - -	70,367,351	5,496,536	75,863,887	52,700,050	12,507,951	65,208,001
III 1902-03 - -	74,409,966	5,600,716	80,010,682	50,627,349	15,445,968	66,073,317
Yearly average -	67,108,937	5,101,338	72,210,276	48,320,019	12,498,663	60,818,682
Percentage of increase or decrease as compared with period No II - - -	+9 778	+40 857	+11 516	+7 216	+33 199	+11 693
IV 1903-04 - -	89,197,643	4,795,793	93,993,436	54,939,241	20,449,159	75,388,400
IV 1904-05 - -	91,155,204	5,254,351	96,409,555	62,876,068	20,807,124	83,683,192
IV 1905-06 - -	92,858,884	4,179,270	97,038,154	67,251,306	12,993,219	80,244,525
IV 1906-07 - -	104,636,454	3,746,680	108,383,134	70,891,549	17,214,922	88,106,471
IV 1907-08 - -	107,331,478	3,335,370	110,666,848	84,842,658	20,729,578	105,572,236
Yearly average -	96,835,932	4,262,293	101,298,225	68,160,165	18,438,800	86,598,965
Percentage of increase or decrease as compared with period No III - - -	+44 297	*−16 448*	+40 282	+41 060	+47 526	+42 389
Comparing the last with the first quinquennial group the percentages of increases are	+66 817	+113 573	+68 704	+62 176	+99 207	+68 859

APPENDIX X

SPEECH OF FINANCE MEMBER OF THE GOVERNMENT OF INDIA, INTRODUCING A BILL FOR THE ESTABLISHMENT OF A PAPER CURRENCY IN INDIA, 3RD MARCH 1860 Handed in by Mr F W NEWMARCH, Financial Secretary at the India Office (with reference to Question 1610)

Mr Wilson rose and said —

Mr President,—Sir, when I had the honour, a fortnight ago, to lay before the Council an exposition of the Financial policy of Her Majesty's Government of India, and to propose that the people of India should be subjected to some new imposts in order to relieve the necessities of the State, I then gave an assurance, on behalf of Government and myself, that we were deeply imbued with the necessity of taking stringent and bold measures for securing to India at the same time such administrative reforms as were urgently required, not only in order to secure the greatest possible economy, but the greatest efficiency in the public service In pursuance of the notice which I gave last week, I now rise to propose our first measure in redemption of the pledge I then gave Sir, I believe there is but one opinion throughout India, and I will add at home, that the currency of this great dependency of the British Empire is in a most unsatisfactory state, there may be, and no doubt there are, many different opinions as to the mode in which its glaring defects can be best amended, but at least all are agreed that amendment is loudly called for And I think Honourable Members will agree with the Government in regarding this as one of the most important reforms in administration, and as one calling for the earliest attention of the Government and the action of this Council Sir, I must say that I know no question of greater importance to the commerce, the industry, and the material well-being of a country, than that of the laws which regulate its currency If your monetary condition be unsound, the country will be exposed, in an aggravated form, to all those vicissitudes which overtake trade, for a time paralyze industry, and impoverish the people —if on the other hand, it be based on sound and solid principles, we may rest contented that we have at least taken every precaution within our power, if not for altogether preventing those vicissitudes, yet for alleviating their consequences and shortening their duration

Sir, I approach this subject not without considerable anxiety—an anxiety in no degree arising from any doubt or mistrust which we have in the principles I shall have to avow on behalf of the Government, or of the soundness and adequacy of the measure I have to propose No—my anxiety arises from a doubt in my own powers to expound those principles, and that measure sufficiently clearly to carry your views along with me, for not only is the subject of itself extremely intricate, but it has been rendered still more so by the great variety of views which have been discussed, and the great diversity of systems and proposals to which those discussions have given rise But, Sir, it is essential for the success of our measure that we should carry pubic opinion with us in the soundness of our plans My only aim, therefore, in now addressing you, will be to lay down those principles, and to explain our measure in a manner to make myself as intelligible as I possibly can to all, and if in so doing, I shall detain you somewhat longer than you could wish, I trust to the great importance of the subject as my excuse

Sir, we wish to deal with this question in a broad and comprehensive manner, befitting the interests of a great country—in a manner which shall be applicable alike to all parts of India—in a manner which, being sound in principle, we may safely leave to a development as wide as the wants of India can ever require, however great they may be Sir, we feel it to be a

great principle in Government to base our measures with regard to all matters of trade or finance on so sound a footing, that we may safely leave them to their own self-development, according to the unrestrained requirements of the public from time to time, without the constant interference which unsound principles demand from the State to bolster them up. And we feel that, in applying such principles to India, we have at least this advantage, that we have almost what I may term a *tabula rasa* upon which to act. No doubt one of the great difficulties which other Governments have had to deal with in reforming their currency legislation has arisen from a net-work of unsound practices and of existing interests which stood in their way. Fortunately, we can hardly be said to labour under such a difficulty. At the same time, the subject is so novel in India, and I may add the relation of the Government to the people is so peculiar, that I cannot but feel, in order to make our course clear and the benefits to be derived from our measure intelligible, it will be necessary for us to consider the question from its foundation, and I hope I shall not be thought pedantic if I venture to lay down some of the first axioms as to the nature and character of currency, in order that we may the better judge of the soundness of the superstructure which we shall raise in the shape of a measure proposed for your adoption.

In the first place, then, we shall, I think, be all agreed, that the only legitimate object of currency, in whatever form it exists, is to act as a medium for circulating commodities in a manner infinitely more convenient than any system of barter could effect that object, and that this is best attained by the adoption of one of the precious metals, gold or silver, as the least fluctuating standard to which the values of all other commodities can be referred and by which they can be defined. At the same time, it must be plain that, in thus setting aside a large amount of the precious metals for this purpose, we are really abstracting from the common stock of the country so much capital, and devoting it to a purpose which yields no profit or interest, but which nevertheless gives to the remaining common stock of capital so great an increased value, by the additional facilities which are given to exchanges, as fully to compensate for the abstraction of so much capital. Well, then, applying this principle to things as they actually exist in India—how do we stand? The standard which we have adopted is that of silver. Whether it is the best or not, we will consider hereafter. But at least, I must ask you to bear in mind, and never to lose sight of the fact, that from time immemorial the standard of value in India has been one of silver,—that every obligation, public and private, has been contracted in a currency of silver,—and that all such obligations to pay any given number of rupees at any date however remote, is really nothing more or less than an obligation to deliver so much silver.

Then let me ask, how much capital has there been abstracted from the common stock in India for this purpose? How much continues abstracted, performing the function I have described, though I fear in a most inconvenient form—indeed, in a form, as I shall show, which leads to further great sacrifices independent of the loss of so much re-productive capital? It may be difficult to form any precise estimate of the amount. But at least we know enough to come to the conclusion that the amount is very large. Since 1835, I find that the coinage in the three Indian Mints has exceeded a sum of one hundred crores of rupees, equal to one hundred millions of pounds sterling. But, Sir, this would give but an inadequate idea of the rate at which silver coin is being now absorbed. One hundred millions in twenty-five years give only a general average of four crores of rupees, or four millions sterling in each year. But what is the magnitude of our transactions now? In the last four years the quantity of silver coined at our Mints, and absorbed in the country, amounts to no less than forty-seven crores of rupees, or 47,000,000*l*. being at the rate of nearly 12,000,000*l*. in each year. Sir, could we have a stronger proof of the rapid increase of the activity of our trade, and I will add of the wealth necessary to minister to it? Now, I am not unmindful of the fact that all this coin does not remain in circulation—that much of it is, unfortunately for the country and for its owners, hoarded, and that some of it is again melted down for jewellery. But making all due allowance for these abstractions, there must be in actual circulation

as coin a sum of money exceeding one hundred millions sterling, or one hundred crores of rupees, more than the equivalent of the whole debt of India, and it is an important fact that this amount is annually increasing, and must increase, as trade becomes more active, thus abstracting more and more from the re-productive capital of the country

But, Sir, I have hinted at other ways in which the public in India, and I may add the Government, are exposed to loss through our present monetary system Our currency consists exclusively, or nearly so, of silver coins, forming a great bulk and weight in proportion to its value Can any one form a just estimate of the whole cost to which the public are put in transmitting this bulky coin from place to place? Can any one even judge of the expense the Government alone has incurred on this account? I have seen many estimates on this head If I mistake not, I have seen an estimate made by Sir Charles Napier, that the protection of Government Treasure, in escort and in other ways, gave employment to something like thirty thousand native troops But be that as it may, be it exaggerated or not, there is no question that the public of India are put to an enormous annual cost for the mere risk attending the transmission of coin from place to place

Now, Sir, let us enquire what are the means which the application of Economical Science and experience have pointed out in far advanced and highly civilised communities, by which this great abstraction of capital from re-productive purposes can be reduced, by which the cost and risk of removing coin in bulk can be obviated, and by which a great and general economy to the State and the public can be effected? No doubt, between nation and nation, this is chiefly done by the well understood and valuable contrivance of Bills of Exchange —in the domestic transactions of a country, this economy is to some extent effected by Banking operations and transfers, to some extent by Bills of Exchange but to a much greater extent, and in a far more convenient form, by the use of Bank Notes of uniform amount, and for such sums as suit the ordinary transactions of life, but so regulated as to represent in reality the coin for which they are used But before I proceed further, I am desirous of here noticing some proposals that have been made from time to time in India for the purpose of remedying the defects of our monetary system by the introduction of gold coins Now, Sir, I must say that, having given all the proposals which have been made for this purpose, or that are capable of being made, our most careful consideration, I am unable to recognise in any one of them a reasonable or unobjectionable mode of accomplishing the object Shall we adopt a double standard of gold and silver? Sir, few will be found to advocate such a plan No doubt, gold and silver vary in their intrinsic value in relation to each other, much less than perhaps any other two articles that could be named, but, nevertheless, they do vary, and that not inconsiderably, as the experience of the last few years has shown In relation to silver, gold is certainly at least five per cent cheaper than it was ten years ago, and when we come to treat of national obligations, that may represent a large sum What effect then would the adoption of a double standard have? Why, clearly to enable the debtor to discharge his obligation in whichever might at the time be the cheapest metal This, Sir, would destroy the whole object, and the great utility of a standard at all, and would simply enable the debtor to pay in one material what he had contracted to pay in another Sir, we are not prepared to adopt a measure admittedly so defective and so unsound But, then, it has been proposed that gold coins should be circulated, and should pass only at their intrinsic value, fluctuating from day to day according to the fluctuations of the price of gold But, Sir, it would be a mere misnomer to call such coins money Could the transactions of a country be carried on with coins which to-day might represent 10 rupees and 8 annas, to-morrow 10 rupees, and the next day 9 rupees and 8 annas, and so on? Think of the inconvenience which would arise from such a system and the altercations which would ensue between buyer and seller as to what the real intrinsic value was from day to day, or even from hour to hour Again, think of the dissatisfaction which would naturally be felt by any one who, having received a coin of the Government at one rate to day, found, when he required to use it to-morrow, that it had fallen in value by 4 or 8 annas

Sir, if there is one duty more than another which the Government owes to the public in respect to its monetary arrangements, it is that the coins, which it circulates with its authority, shall be of one common and unvarying value But another proposal has been made with a view of obviating the evil of a fluctuating value It has been proposed that gold coins shall be issued representing 10 rupees of a certain weight and fineness, and that their value should be fixed by law as a legal tender for a given period of time say six months or a year, when the exact value should be re-adjusted according to the market value of gold for another period of time But what would be the practical effect of such a plan? If, after the value was fixed, gold were to rise in price, then there can be no doubt all the gold would disappear from circulation—if, on the other hand, gold were to fall in price, it would become profitable to send gold to the Mint to get it coined, and with it to purchase silver coin at a profit In such case no doubt a considerable quantity of gold would be forced into circulation But the day of reckoning would soon come—the time when a re-adjustment of the legal tender value of the coin would take place A large quantity of coins which had passed as legal tender for 10 rupees for a certain time would on re-adjustment pass for 9 rupees 8 annas Who is to bear the loss! The unfortunate holders at the time the re-adjustment took place Would this be a satisfactory arrangement? My own belief is that in practice all these schemes to make two metals, which are always less or more varying in price towards each other, circulate in strict uniformity, would entirely fail It has been tried in Europe under the most favourable circumstances, and has failed there I have here a monetary convention, which was entered into in 1856, between the Austrian Government and all the other German States, with a view to have one uniform current coin Everyone who has travelled through Germany is aware of the great inconvenience which resulted from the various coins which were in circulation throughout those States The standard of value in Germany and the current coin are of silver, as is the case in India But some of the parties to the Treaty, and especially the Government of Austria, were anxious to supplement their silver currency with gold coins, as has been desired in India The plan for this purpose provided for by the Treaty is similar to that upon which I have just commented—it was provided that gold coins should be issued at a fixed valuation which should remain a legal tender, and current for six months, and should then again be subject to re-adjustment in their current value according to the market price of gold, and so on, a new re-adjustment taking place every six months The words of the Treaty are —

Extract from the German Monetary Convention, dated January 24th 1857

Article XXI para *a*—That each State is at liberty to allow their gold coins (Article XVIII) to be taken at their treasuries in lieu of silver, at a rate of exchange to be beforehand decided upon, and this at all treasuries, and for all payments or only partially, as shall be thought proper Such pre decided rate of exchange shall last at the utmost for six months, and at the close of the last month is to be each time re considered for the next similar period

Well, Sir, when I saw that propositions of a similar character had been made here, I wrote to Lord Wodehouse, the Under-Secretary of State for Foreign Affairs, and begged that he would ascertain from the Austrian Ministry what had been the practical effect of that provision in the Treaty I have just received His Lordship's reply He encloses a communication from Lord Augustus Loftus, our Minister at Vienna, of which the following are extracts —

Extract from Despatch of Lord A Loftus, No 92, *dated November 8th* 1859

The provisions of the convention between Austria and the Zollverein States, affording the faculty of supplementing their legal currency by the addition of gold coinage, have virtually been a dead letter as regards Austria

* * * *

Under these circumstances, the provisions in the monetary convention in question as far as regards gold, have never been acted on, and very little gold comparatively has been coined in Austria, *that metal for some years past being little current,* and principally confined to the hands of money dealers and merchants, for the purpose of making payments in foreign parts, it cannot therefore be reckoned an active or operative portion of the specie currency of the Empire

Sir, the experience of Germany is not encouraging for India to rely upon impracticable schemes of this nature for the improvement of our currency

But then another and more extensive change has been suggested, and that from a quarter deserving of every consideration It has been said—why not change our standard of value ?—why not, as in England, adopt a gold standard, supplemented by silver tokens of limited tender as subordinate coins ? Sir, if we had now to begin *de novo*, no one would doubt that that would be a much preferable plan to that which we now find in use But we have to deal with a system already established—a system under which an enormous amount of obligations, both public and private, has been incurred As I have already said, those obligations in reality are to pay a given quantity of silver And if we were now to change our standard of value, and to adopt gold in place of silver, because the former is becoming cheaper in relation to the latter, I think no one can doubt that we should by law be enabling every debtor—the State amongst others—to commit a breach of faith upon his creditor Let us bear in mind that a reduction in the price of gold of only 5 per cent would, under such circumstances, in effect reduce the claim of the holders of the public debt of India by no less a sum than five millions sterling Sir, we are bent upon reform and economy in every legitimate shape that lies within our reach, but we believe that the credit of the Government will be best sustained by the most rigid observance of good faith in all its transactions

Then, Sir, however free we are to admit the great inconvenience of the existing system, we are unable to look in the direction of a gold currency for a cure of its defects But we think we can propose one in every respect more effective for all the objects we have in view, and one which will strictly maintain the integrity of our present standard, and which will not expose us to the suspicion of tampering with the obligations of the State We have no doubt that all the objects at which both we and the public aim, will be far better and more perfectly accomplished by having recourse to a sound, well-regulated, Paper currency of general application to the whole of India, and at all times easily and readily convertible into the coin which it represents—a Paper currency so well secured that it can safely be made a legal tender in all transactions throughout India Sir, on all hands, and by all our most accredited authorities on Political Economy, the adoption of a paper circulation so well guarded as always to maintain the full value of the coin it represents, is regarded as one of the highest and most beneficial efforts of political science and civilisation It enables us to use as an instrument of circulation, in place of the unwieldy and costly coins which we do at present, a representation of them which costs little or nothing, but which in every way is infinitely more convenient In this way it effects a great economy of capital by releasing the precious metals which are much more imperfectly performing the same purposes Some writers have compared the adoption of a Paper currency to the discovery in the country of new mines, because you do really add to the effective wealth of the country, to whatever extent paper replaces the coin in circulation Adam Smith, I think, it is who compares the economy thus effected to a discovery by which all your locomotion could be conducted without roads, and by which you were enabled therefore to add the existing roads to the portion of the land under reproductive cultivation The road is an abstraction from the fruitful portion of the soil, but the sacrifice is abundantly compensated for by the additional value which it gives to the rest, so the precious metals used as a circulating medium, yielding as it does no interest, and being, as I have said, an abstraction from the reproductive capital of the country, the loss of which, however, like the land used for roads, is compensated for by the greater value given to the remainder But, Sir, if we can to a great extent, by the use of paper, effect the same object, then we release that unproductive capital for other purposes, while we confer a greater convenience upon the public The inconvenience of the present money in use is sufficiently familiar to every one in private life—the inconvenience to those engaged in large transactions, especially out of the Presidency Towns, and where there are no bank notes, is still greater In one of the large Trading Towns in the North-West I found a remarkable example of this inconvenience I found that recourse had been had for a circulating medium, in order to save the labour and time of counting large sums in rupees, to the use of mysterious sealed bags said to contain a thousand

rupees each These bags circulate freely in wholesale transactions, upon the faith the merchants have in each other, with a "chit" or letter of indorsement, without always any precise knowledge of what the real contents are Sir, when recourse is had to expedients of this kind, we have ample proof that some reform in our existing system is loudly called for But, Sir, independent of the great economy of capital which is thus effected by a Paper currency, there will be a further economy in three other important ways—first, we shall find a great reduction in the cost of the Mint, next, we shall save the wear and tear to which the coin in circulation is exposed, and the great loss which the public incur from light coins, and, lastly, we shall, both as a Government and as a community, save not only great expense but also great risk in the transmission of money from place to place—we shall be able to adopt the improved plans of civilised nations in place of adhering, as we do to this day, to a practice which had its origin long before the Christian era

But, Sir, a Paper currency, in order securely to carry out all these advantages, and to be a perfect representation of coin, must be based upon certain well-known and defined principles In order that the paper shall be identical in value with the coin, it must not only be made convertible in theory and by regulation, but sufficient security must be taken to provide for that convertibility at all times By this means the quantity of paper in circulation will always be identical in quantity with what it would be were it to continue wholly a metallic circulation The notes issued would not be an addition to, but a mere substitution of, the silver coins which they displaced It is, Sir, a Paper currency upon this sound principle which we seek to establish in India—a principle which has stood the test of experience in other countries, where it has been found equal to the magnitude of the largest trading transactions But in order that a Paper currency shall fulfil all the purposes of coin it is necessary that it should be a legal tender everywhere, except at the place of its issue, where it is convertible into coin, and it should moreover be received by the Government in payment of revenue and for all other purposes

Assuming then, Sir, that I have been fortunate enough to carry the Council thus far with me, it will now become my duty to state in what manner the Government is of opinion a Paper currency, combining all these advantages, can best be carried into effect And here I propose, for the sake of clearness, to divide our plans into five distinct heads—first, as to the agency through which such notes can best be issued, second, as to the manner in which the necessary securities can best be taken for the conditions which I have laid down as essential to a well regulated Paper currency, third, as to the functions to be entrusted to the issuing body, fourth, as to the denomination of the notes to be issued, and, fifth, as to the securities to be taken against forgery

In the first place then, Sir, we are to consider what will be the best agency to use for the purpose of circulating a Paper currency Now, let us bear in mind that the proposal is, and we think that essential, that the notes to be issued are to be a legal tender in all transactions between man and man, that they are to be received at every Government Treasury for all demands of the Government for revenue or other purposes, and that the system is to be general, and to extend over the whole of India It is essential that we should bear these conditions in mind Well, in point of practice, the issue of paper money has hitherto been usually confined to banks or to Governments I may say most usually to banks, and there is no doubt that in old countries, where the system has long been combined with the institutions of trade, and where the machinery of banks upon a sound basis exists and is spread all over the country, they possess considerable facilities for exercising this function But let me here remark that the issue of notes does not necessarily constitute any part of the business of a banker, *who is more properly a dealer in capital*, a borrower from one man and a lender to another upon higher terms, which forms his profit, in short, a most useful and beneficial medium, through which the spare capital of one portion of the community is rendered profitable in the hands of another We can have no better proof of this than the facts that, notwithstanding the great number of private and joint stock banks in

London, none of them (the Bank of England only excepted) do or ever did issue notes in Manchester, one of the largest emporiums of trade in the world, not one of the Banks (the branch of the Bank of England excepted) issues notes, and by the laws of 1844 and 1845 all Banking Companies established after those years within the United Kingdom are distinctly interdicted from issuing notes We require no further proof that the issue of notes is no necessary part of a banker's business But, Sir, there are peculiarities in our position in India, and in the system which, on the part of the Government, I am about to propose, which would render it even more difficult than usual to employ the agency of Banks in India In the first place the system is to be universal How many years should we have to wait before we could expect that any Banks, however extensive their capital, could establish branches throughout the whole country for this purpose? But, again, even though that difficulty were got over, we have still another which I regard as insurmountable Our notes are to be a legal tender, they are to be received by every private person, as well as by the Government, in discharge of all ordinary claims To attach this condition to our notes, we must provide absolute and undoubted security for their payment, not only for their ultimate payment but for their convertibility into coin when required Well, Sir, if we employed the agency of a Bank, we should require not only a deposit of securities which would ensure the ultimate payment of the notes, but also of a proper reserve of bullion, to secure their prompt and immediate payment We could not make them a legal tender on any other conditions Well, but the business of a Bank established upon such a scale could not be, and it would not be desirable that it should be, confined to the issue of notes It would extend to all other banking business It would hold deposits, it would issue bills of exchange, it would discount and negotiate mercantile paper in short, it would have a great variety of creditors other than those who held its notes Would it then be practicable, would it be fair towards the great body of its creditors, if so large a share of its assets, as I have said, should be set aside as security for its notes in favour of one class of its creditors, to the possible injury of all other classes? Would it be fair to protect the note-holders at the possible risk of the depositors? Sir, with one exception, to which I will shortly refer, I know of no Bank whose issue of notes are a legal tender the Banks in Scotland all issue notes, but they are not a legal tender, the notes of the English and Irish local Banks are not a legal tender, the notes of none of the American Banks are a legal tender, the notes even of the Bank of France are not a legal tender, the notes of the Bank of England only, and this is the exception to which I referred, are a legal tender, and this exception is defended upon the ground that the Legislature has entirely separated the department for the issue of notes from the department for general banking business, and that it has provided that, in the issue department, there shall at all times be retained public securities and bullion to the full amount of the notes which, from time to time, it issues Now there may be, and no doubt there is, a question how far this separation of accounts is real or nominal, as it affects the interests of the different classes of creditors, but practically, considering the large capital of the Bank of England, upwards of seventeen millions sterling, including the Rest, and considering the publicity given to all its transactions and its accounts, the question would never arise But with a new establishment in India it could not but be otherwise On every ground, then, while we wish to see banking establishments extended, we have come to the conclusion that we cannot avail ourselves of the agency of Banks for a general Indian paper currency

But, Sir, if there are special reasons why Banks in India cannot be used for this purpose, there are others as special and peculiar to India which point to the remarkable facilities possessed by the Government for the issue and management of a paper circulation Throughout India in every part, however remote, the Government has an organised body of public officers, of receipt of revenue on the one hand and of expenditure on the other Indeed, it is not too much to say that the great recipients and disbursers of money throughout the whole of India are the revenue and other officers of the Government The Government Treasuries may be said practically to

represent the great bulk of monetary transactions in most districts. Practically the transactions of these Treasuries, and the money that is accepted at them, must regulate the transactions of India. Well, but Sir, we have to use every possible precaution against abuse of the power which the Government would have, if it had an uncontrolled authority to issue notes. If we are to make the notes a legal tender, we must take absolute security not less than that I have described for the safety of those notes. We must take care that, under no circumstance can the Government abuse the privilege of making paper money, and by over issues for purposes of expenditure endanger their convertibility, and thus run the risk of their depreciation. We do not then propose that the Government itself, in any of its existing departments, shall be empowered to issue notes, but that, by the Bill which I shall ask leave to introduce before I sit down, a Commission shall be formed, whose duties shall be strictly defined by law, over whom the Government shall have no power except within the limits of the Act, and who shall be bound upon oath to obey the provisions of the Act. Sir, in this we aim at no novelty. In this and all our measures we are not ambitious of being regarded as ingenious inventors; we are content to accept the more humble, but by far the safer function of applying, in the most approved manner to the circumstances of India, those great principles of sound science and its practice which long years of discussion and experience have proved in advanced countries to be compatible with public interests and public security. Sir, as nearly as possible, we take the issue department of the Bank of England as our model, but we take it under most favourable circumstances, being stripped of its only objectionable feature, its connection with the banking department.

This, then, brings me to the second point. The manner in which security shall be taken for the performance of the conditions which we regard as essential to a paper circulation, which is a legal tender, and, together with this, we may, to save time, consider also the third head, that is, the functions of those who will be entrusted with the issuing of the notes. Sir, for this purpose we propose to divide the three Presidencies into convenient districts, to be called *Currency Circles*. Our object will be so to arrange these circles that the chief station of one of the existing districts for revenue purposes will be near to its centre. In connection with the Mint at Calcutta will be the head establishment, where the notes for the whole of India will be made, under the direct superintendence of the Head Commissioner. In connection with the Mints at Madras and Bombay, there will also be established Commissioners, in whose charge the circulation of those Presidencies will be placed, and who will be supplied with notes from Calcutta. But for the sake of clearness I will confine my observations now to this Presidency. The local circles having been determined and fixed, the chief station within it, where we should find the principal Treasury of the district, which would also be a Military Station, and at which a considerable European population would be found, such a place for example as Benares, or Allahabad, or Lahore, would be fixed upon as the station for the Branch Department of Issue, under the control of a Deputy Currency Commissioner. The functions of the Commissioner in Calcutta and of the Deputy Commissioner at the local branches, so far as regards the issue of notes, would be precisely those of the Issue Department of the Bank of England. They would receive coin and silver in exchange for notes, and they would always be prepared to pay coin in redemption of the notes of their district. The notes, like those of the Bank of England, would be of similar appearance for all India, but the notes of every Branch would bear upon its face the name of the Branch at which it is issued. All Branch notes will be payable in silver at the Branches from which they are issued, and also in the Presidency Towns to which the Branch belongs, whether Calcutta, Bombay or Madras. The notes will be received into every Treasury in the circle in which they are issued in payment of revenue and of all other claims of Government. But there would be no more connection between the Government Treasuries and the Issue departments than with private Banks. In the first instance, the Government Treasuries would exchange such part of their silver as they desired for notes; the Issue department would receive

the coin and the Treasuries the notes representing it, for circulation. Bankers and others requiring notes for the purpose of trade would obtain them in exchange for silver, and in the seaports, merchants importing silver would carry it to the Issue department, and at a fixed rate would at once receive notes for the full amount in place of waiting; as they do at present, till it is coined, thus giving them the same advantage that the importer of bullion has in London in carrying his bullion to the Bank of England, and of receiving its own notes in exchange, which are convertible into coin, and can at once be used for all trade purposes Now, according to this plan, it will be plain that the Issue departments, neither in Calcutta, nor in the districts, can ever have in circulation a larger amount of notes than they possess coin to represent, but inasmuch as a larger proportion of the notes thus circulated will remain out, and at any time only a small proportion can ever be presented for payment, each Branch and each chief department of issue will be permitted to invest a portion, in no case exceeding two-thirds, in Government paper, which will be held by the Issue department, specifically appropriated to the payment of the notes, and the remainder, not less than one-third, will be held in bullion, ready to meet the claims of those who wish to exchange their notes for coin The necessary balance of coin at all the branches will be kept up, if needful, by supplies from the head departments in the Presidency Towns The circulation of the Bank of England is usually about twenty-one millions, which is represented by fourteen millions of public securities, and the remainder in bullion By these means, Sir, we should give to the country all the convenience to be derived from a Paper currency We should effectually provide at all times for its absolute security and for its instant convertibility The Issue department would always be possessed of bullion and public securities together to the full extent of the notes issued be the amount ever so great, the principle would be so sound that no other limit need be placed upon the action of the department The legitimate demands of trade alone would determine the amount of the circulation, without any interference on the part of the Government to attempt to regulate it Such a mixed currency of paper and coin would exactly correspond with that which, under present circumstances, would exist, if we continued to circulate coin only, and that, Sir, is on all hands admitted to be the true test of a sound currency These, Sir, are the functions which the Issue departments will perform, and these the securities which we propose to take for the performance of the conditions which I have described as being essential to a sound Paper currency, and we have no doubt they will be considered as ample for the purpose And, Sir, it will be obvious that by this means a large profit will accrue to the Government The Commissioners of the Issue department will receive the dividends due upon the stock which they hold, which they will pay into the public Treasury as the profits of the note circulation but the Government will be benefited in another form, it is impossible that so large an amount of public securities can be taken out of the market without raising their price, and proportionately in a most legitimate way improving the credit of the State The practical effect of these measures will indeed be the redemption of so much of the public debt as shall be thus held by the Commissioners of the Issue department of the Government

Then, Sir, we have next to consider what ought to be the denomination of the notes so issued? This is a subject upon which much difference exists both in opinion and in practice, and it will be obvious that it can only be properly determined by a reference to the character of the transactions of a nation, whether as a rule they represent very small and minute sums, or whether they represent generally larger sums In England the lowest denomination of notes is 5*l*, in Scotland and in Ireland it is 1*l*, in France it is 100 francs, in the United States it is one dollar or about 4*s*. 2*d*, in some of the North American Colonies one dollar notes freely circulate, throughout Germany the thaler note, of value little more than 3*s*, is the most common circulation, in Mauritius the circulation consists of notes of 5 rupees or 10*s* and upwards, in Ceylon the notes are of 10*s* and upwards, formerly they were of 5*s*, and by a report on the subject which I recently

received from the able and accomplished Governor of that Colony, Sir Henry Ward, it appears that the suppression of notes of that denomination had been attended with inconvenience to the planters and others, of which complaint had been made But from what I have already said, it will be apparent that, as a matter of security, it is much more important that the circulation should be based upon a really sound principle, than in any way unduly restricted in the denomination of the notes It must be plain that a principle which makes notes of a large denomination safe and secure must equally extend to those of a lower denomination And, Sir, there will be a peculiar source of absolute security in respect to the paper circulation of India, which attaches to perhaps no other Bank of Issue in the world In all other cases with which I am acquainted, notes are issued to the public in the shape of loans, in discount of bills, and as advances in various forms Now it may be said, and truly, that even if issued for those purposes, they could not remain out in excess of the public requirements so long as they are convertible at the pleasure of the holder into coin This is a point upon which the great majority of practical authorities may be said to be now agreed To believe that convertible notes can continue in circulation in excess, is to contend that a note that can be easily and instantly exchanged for coin can be depreciated, because the only proof that I know of an excess of circulation is depreciation of the notes in relation to the coin it represents Now no one I think will contend that any man having a note in his possession which did not command the same exchangeable value as the coin it represents, and having it in his power to exchange that note for the coin, would fail to correct the anomaly by that means But there have been those who have thought differently, and even to those I would say that the issue of notes upon the principle we propose cannot possibly be attended with any such risk Sir, our notes will be purely bullion notes, they will be issued only in exchange for bullion there will be no issues as credit advances in any shape whatever That is the legitimate business of Banks It is ours to furnish a circulating medium—it is theirs to use it in all the variety of forms which credit transactions assume In our case we are absolutely restricted, and by force of a great and obvious principle we maintain intact the full intrinsic value of the currency—in theirs, they are governed by the ordinary principles which govern all commercial transactions Well, Sir, these are not unimportant considerations, when we are determining the denomination of the notes to be issued But the main consideration, after we have determined upon a sound self-acting principle, is the character of the transactions of the country and the denominations of the coin in use It is the imperative duty, it is the interest of a Government, to furnish a circulating medium for exchanges determined in amount by the wants of the community Well, the great characteristic of Indian transactions is their number and their multiplicity And, then, if we bear in mind that the highest denomination of coin in circulation is one of only a single rupee or two shillings, while in England the common coin is one of twenty shillings, it would appear that we should be justified in adopting the old practice in Ceylon and the present practice in many countries, and adopt notes of a denomination as low as two or two and a half rupees But, Sir, we do not propose to go so low—we propose to begin with five rupees or ten shillings, adopting the limit at this time actually in practice in Ceylon and Mauritius, and beginning with that denomination, to have others of *ten, twenty, fifty, one hundred, five hundred,* and *one thousand* Rupees, which latter I hope will take the place of the mysterious sealed bags which circulate at Mirzapore

Sir, we think it is essential to the plan to have notes of a small denomination, in order to furnish change for the notes of larger amount, which will be extensively used as an easy mode of remittance from one part of a district to another As I have said before, these notes will be payable in coin at the central offices of the district from whence they are issued, and they will be all payable as well in Calcutta, Bombay, or Madras, as the case may be They will be receivable in every Government Treasury within the circle in payment of revenue or any other claims of the Government whatever And I cannot help believing that such a system of currency will

prove of an immense convenience, compared with the present cumbrous system of conducting all our transactions, however large, in two-shilling silver pieces

Well, then, Sir, the fifth and last head is, what precautions we are prepared to take against forgery? and I think we shall be able to satisfy you that we have not only not been unmindful of that important point, but that we have already taken measures, and that successfully, which will give us every security that it is possible to attain on this head But here I would remark upon a point which I think has been too much overlooked in connexion with the relative risk which exists between a currency of coin and one of paper We must bear in mind that coin can be counterfeited while notes can be forged Two years ago, I moved for a return in Parliament of the number of prosecutions which had taken place in England, Scotland, and Ireland, during the ten preceding years, in connexion with the making and uttering of base coin, and in connexion with the forging and uttering of forged notes I hold that return in my hand The result is that in England and Wales, during the ten years, the cases of prosecution in relation to coins numbered no fewer than 6,291, while the number of prosecutions in connexion with forged notes were only 1,866 Again, in Scotland, and here let it be borne in mind that the denomination of the notes in circulation is as low as *one pound*, and where the circulation consists almost exclusively of paper, the number of cases of prosecution in connexion with base coin was 570, while the number in connexion with forged notes was only 4 Again, in Ireland, where the lower denomination of notes also prevail, the number of cases of prosecution in connexion with coinage was 338, while in connexion with forged notes they were only 41 In the whole of the United Kingdom, the prosecutions in relation to base coins were 7,199 for the ten years, while those in connexion with forged notes were only 1,911 I think these returns conclusively show that the risk of counterfeit which attends any system of currency is by no means confined to Bank Notes I believe I am right in saying that the attempts at counterfeiting coins in India are very rare and that prosecutions in relation to such crimes are not of frequent occurrence No doubt the complicated machinery required for coining, and the great cost and skill necessary to make it, and the rareness of skilled artificers to work it, may be said to be one of the reasons why this class of crimes does not prevail in India--for we must bear in mind that it requires a large outlay of capital, and a large employment of the most ingenious skill (which so much abounds in England), to manufacture even counterfeit coins But, Sir, if this difficulty has hitherto shielded the Indian public from the dangers of a base coinage, I think I shall be able to show that the steps we have taken will be even more perfect for shielding it from the evils of forged notes Sir, we know well how expert some of the people in the East are in imitating hand-writing I have heard of a case in which one of your predecessors, Sir—a former Chief Justice of Calcutta—was deceived on the Bench by the production of a document purporting to bear his own signature, and which turned out to be forged We all know, too, the number of forged documents which are used in our Courts of law—an evil so common, that the Honorable Member for Madras has submitted to us a Bill, the avowed object of which is to check these proceedings But be it observed that all these attempts are made in connexion with the hand-writing I have not heard of a case where an attempt has been made to forge the stamp to a document Sir, our precautions will consist altogether of those of a mechanical character embracing the use of machinery and scientific operations of the most refined character, but at the same time plain and palpable to the eye of the commonest observer Sir, as soon as I had accepted Her Majesty's gracious appointment to the responsible office I now fill, my attention was at once turned to this most obvious reform in our Indian administration I immediately put myself in communication with the Governor and Deputy Governor of the Bank of England, and the able and intelligent mechanical officers who have the sole management of the manufacture of the notes And, Sir, on the part of the Government of India I must here tender to those distinguished functionaries, and to their accomplished officers, our best thanks for the very effective aid which, as I shall immediately show you, they already have, and

are prepared still further to extend to us in this very important matter. Sir, it is no slight advantage in starting a new career in a matter of this important kind, to have behind us the aid and support of an experience in the most civilised country in the world of nearly two centuries. If there is one thing more than another with regard to which the British Parliament has, at all times, been ungrudging, it has been in extending to trade all the legitimate protection against fraud within its power, and to the Bank of England, as being the chief issuer of paper money, it has extended every possible security against forgery. It has, by law, given to that corporation the sole right to use paper manufactured in a particular way, and to use printing of a particular kind. But it is not so much on legal restrictions of this kind that the Bank of England relies. It is not upon the writing or printing of notes, for after the experience of many years, it has become a settled principle in the Bank of England, that the plainest and simplest form of notes is the one in which forgery is most easily detected, and that elaborate notes are most easily imitated. What the Bank of England chiefly relies upon for its protection is the paper which it uses, and the water-marks with which the paper is made. The paper is only made by one house, which is bound to supply the Bank of England alone, and admit no stranger to enter the premises. Well, Sir, whatever advantages the Bank of England enjoys under Acts of Parliament, or in the exclusive manufacture of paper, or in the monopoly of those water-marks, the Directors have generously consented to extend to the Government of India. They have gone further, and pending our preparations in India, they have consented to make notes for us. Sir, I hold in my hand a specimen note for ten rupees, which I received from the Governor of the Bank by a recent Mail, the paper of which contains water-marks similar to the notes of the Bank of England, with the variation only of the words. This specimen has in the water-mark the words "Government of India" along the top of the paper. The word "Ten" in the centre, and the word "Rupees" below. Sir, that which the mechanical skill of England has proved unable successfully to imitate, we may rest satisfied will be secured from counterfeit in India; and the great advantage here is that the water-mark, as a test of a genuine note, is plain and visible to the eye of the most unlettered person. As a proof of the great perfection which the system has reached in the Bank of England, I may mention a very striking fact. It will have been observed that each Bank of England note has inscribed a number with two capital letters attached. If that number, with the two letters, were cut out of a note and all the rest of it destroyed, so perfect is the system, that on presenting that small remnant of the note, the Bank would be able to say whether the note has been paid or not, what the amount of the note was, and the date and place of its issue;—and upon this relict alone they would be content to pay the note, of course taking security that the remainder would not be presented. Sir, it is with all the advantages of a system so perfected, and with the hearty aid and co-operation of the Directors of the Bank of England, that we shall introduce the system of a Paper currency into India. I may here add that the denomination of each note will appear on the face of it, not only in English, but also in the two languages most in use by different classes in the districts where they will circulate. In addition to these securities, the Bill which I now ask to introduce will contain provisions similar to those of the English law, for the punishment of those who may attempt fraudulent imitations.

Sir, I have now, I fear at much too great a length, but it was needful that I should make myself clear upon a subject with respect to which any misapprehension might prove very prejudicial, explained the broad outlines of our measure: we propose to have a paper note circulation of denominations, varying from five rupees up to one thousand rupees, to be issued at the Presidency Towns and at the centres of circles or districts mapped out for this purpose; that they shall be payable in coin at the centre where they are issued and in the Presidency Towns to which the circle belongs; that they shall be receivable by the Government for all claims of whatever kind; that they shall be a legal tender between man and man in the settlement of every claim; that they shall be issued only in exchange for coin or bullion; that a certain fixed proportion of bullion and coin shall always be

kept in hand to secure the convertibility of the notes, and that public securities shall be held in the Issue department for the full amount of the difference

But, Sir, there is one very important point to which I must now refer We have at the present time three Banking Corporations in India, in each of which the Government may be said to be a partner The Government hold shares in each, and is fully represented in the Direction Those corporations issue notes, but they are not a legal tender, nor do they circulate much beyond the Presidency Towns, nor are they received without limit into the Government Treasuries Now, Sir, even if it were desirable, it must be plain that such notes could not circulate along with the Government notes, which I have described as a legal tender The Charter under which these respectable Banks exist are subject to revision at any time on twelve months' notice being given It must be plain that such a system as I have very inadequately attempted to describe should be general and universal over India to secure all the advantages which it is calculated to confer Sir, then we have decided to give the necessary notice to enable us to modify those Charters But I must here say that the Government feel that those Banks have conferred a great benefit upon India, and that they will deserve every consideration consistent with the public interest at our hands, and I trust that we may fall upon some plan which, without involving any sacrifice on the part of the public may compensate, at least in some degree, those Banks for the privilege which they have so long enjoyed, and which I have never heard them accused of abusing Sir, I think we shall find when we come to look at those Charters that they unnecessarily restrict their operations, and that we may also find that we may confer upon them new functions equally for the benefit of themselves and the State In conferring advantages upon the public it is our desire to deal as tenderly with private interest as is consistent with the great objects we have in view

Sir, in the early part of my observations I referred to the fact that the precious metals, to whatever extent they are employed for the mere purpose of coin in circulation, are really an abstraction to that extent from the real reproductive capital of the country, and I wish now to show in what way the measure which we propose will operate in restoring this capital to reproductive channels Independent of all the advantages which will accrue to the country by the adoption of a sound Paper currency, that which I am about to describe is most important, if not the most important of all, however less apparent it may be at first sight I have already shown you by what process the Government would become possessed of a large share of the securities representing the debt of the State, by employing a portion of this coin, withdrawn from circulation and replaced by notes, in the purchase of such securities But, Sir, it will be plain that to whatever extent the Currency Commissioners become purchasers of public stock there must be sellers to the same extent, to whom the surplus coin would be paid Those persons would not permit their capital so relieved from one investment to remain idle, but would naturally seek other profitable modes of using it To this extent capital would be more abundant, competition for its employment would be greater, and the tendency would be, to use a familiar phrase, for money to become cheaper No doubt the first tendency would also be for silver to fall in price as it became released from the circulation, the first effect of which would be to lead to its exportation to any country where the merchant found it would yield a profit, and by this operation the equilibrium of value would be instantly restored In short, to abstract so much coin from the mere mechanical purpose of the circulation, supplying its place with convertible paper, would be exactly the same in effect, as if suddenly, in the centre of the Midan, a rich silver mine had been discovered, and which produced silver at little or no cost The first operation would be to lead to an export of that silver in exchange for articles of various descriptions which were really in demand, and by which means to the full extent the real wealth of the country and the aggregate amount of its reproductive capital would be increased Mr Ricardo, in his able pamphlet upon "The High Price of Bullion," published in 1811, has so admirably illustrated this point, that I trust you will permit me to read an extract from it —

*Extract from the works of D Ricardo Esq "The High Price of Bullion"**

If a mine of gold were discovered in either of these countries, the currency of that country would be lowered in value, in consequence of the increased quantity of the precious metals brought into circulation, and would therefore no longer be of the same value as that of other countries Gold and silver, whether in coin or in bullion, obeying the law which regulates all other commodities, would immediately become articles of exportation, they would leave the country where they were cheap for those countries where they were dear, and would continue to do so as long as the mine should prove productive, and till the proportion existing between capital and money in each country before the discovery of the mine were again established, and gold and silver restored everywhere to one value In return for the gold exported, commodities would be imported, and though what is usually termed the balance of trade would be against the country exporting money or bullion it would be evident that she was carrying on a most advantageous trade, exporting that which was in no way useful to her, for commodities which might be employed in the extension of her manufactures and the increase of her wealth

If, instead of a mine being discovered in any country a Bank were established, such as the Bank of England, with the power of issuing its notes for a circulating medium after a large amount had been issued either by way of loans to merchants or by advances to Government, thereby adding considerably to the sum of the currency The same effect would follow as in the case of the mine The circulating medium would be lowered in value, and goods would experience a proportionate rise The equilibrium between that and other nations would only be restored by the exportation of part of the coin

The establishment of the Bank, and the consequent issue of its notes as well as the discovery of the mine, operate as an inducement to the exportation either of bullion or of coin and are beneficial only in as far as that object may be accomplished The Bank substitutes a currency of no value for one most costly, and enables us to turn the precious metals (which though a very necessary part of our capital, yield no revenue) into a capital which will yield one Dr A Smith compares the advantages attending the establishment of a Bank to those which would be obtained by converting our highways into pastures and cornfields, and procuring a road through the air The highways, like the coin, are highly useful but neither yield any revenue Some people might be alarmed at the specie leaving the country, and might consider that as a disadvantageous trade which required us to part with it, indeed the law so considers it by its enactments against the exportation of specie, but a very little reflection will convince us that it is our choice and not our necessity that sends it abroad, and that it is highly beneficial to us to exchange that commodity which is superfluous for others which may be made productive The exportation of the specie may at all times be safely left to the discretion of individuals it will not be exported more than any other commodity unless its exportation should be advantageous to the country If it be advantageous to export it no laws can effectually prevent its exportation Happily in this case, as well as in most others in commerce where there is free competition the interests of the individual and that of the community are never at variance

Sir, it is by this process that the capital, which is now unprofitably employed in this country to a great, and I will add so rapidly an increasing extent, will be by the most legitimate means released and restored to the channel of reproductive uses I may be asked to what extent we expect by this means to economise capital ? Sir, that is a point upon which I am not prepared to hazard a speculation, but if we take into account the fact that in the last twenty-four years silver, to the extent of one hundred crores of rupees, or one hundred millions of pounds sterling, has been coined, and that the demand for coin has increased so rapidly, that in the last four years silver, at the rate of nearly twelve crores of rupees, or twelve millions of pounds sterling, has annually been coined, we must arrive at the conclusion that ultimately the amount will be very large No doubt the introduction of the system must be slow and gradual at first—the time required to establish the necessary machinery and appliances will lead to this—but I regard this limit upon our efforts rather as an advantage than otherwise, because it will afford time for people to become familiar with the system before it assumes large dimensions Our attention will be first directed to the Presidency towns from which the system will be gradually extended into the Mofussil until it has permeated over the whole of India

Before I conclude there are three subjects of a somewhat kindred character to which I would wish shortly to refer The first has reference to a question which has been much discussed by capitalists in England as well as in India I refer to the proposals which have been made for the purpose of establishing upon a large scale, and with an adequate capital, a national Banking establishment capable of gradually embracing the great Banking operations in India, and of extending its Branches to the interior trading cities as opportunity might offer That there is a growing want for such an institution and a rapidly increasing field for its operations no one can doubt The Government is, therefore, desirous to be understood that

* Pages 1-6 of the Fourth Edition, published by Mr John Murray 1811

kept in hand to secure the convertibility of the notes, and that public securities shall be held in the Issue department for the full amount of the difference

But, Sir, there is one very important point to which I must now refer We have at the present time three Banking Corporations in India, in each of which the Government may be said to be a partner The Government hold shares in each, and is fully represented in the Direction Those corporations issue notes, but they are not a legal tender, nor do they circulate much beyond the Presidency Towns, nor are they received without limit into the Government Treasuries Now, Sir, even if it were desirable, it must be plain that such notes could not circulate along with the Government notes, which I have described as a legal tender The Charter under which these respectable Banks exist are subject to revision at any time on twelve months' notice being given It must be plain that such a system as I have very inadequately attempted to describe should be general and universal over India to secure all the advantages which it is calculated to confer Sir, then we have decided to give the necessary notice to enable us to modify those Charters But I must here say that the Government feel that those Banks have conferred a great benefit upon India, and that they will deserve every consideration consistent with the public interest at our hands, and I trust that we may fall upon some plan which, without involving any sacrifice on the part of the public may compensate, at least in some degree, those Banks for the privilege which they have so long enjoyed, and which I have never heard them accused of abusing Sir, I think we shall find when we come to look at those Charters that they unnecessarily restrict their operations, and that we may also find that we may confer upon them new functions equally for the benefit of themselves and the State In conferring advantages upon the public it is our desire to deal as tenderly with private interest as is consistent with the great objects we have in view

Sir, in the early part of my observations I referred to the fact that the precious metals, to whatever extent they are employed for the mere purpose of coin in circulation are really an abstraction to that extent from the real reproductive capital of the country, and I wish now to show in what way the measure which we propose will operate in restoring this capital to reproductive channels Independent of all the advantages which will accrue to the country by the adoption of a sound Paper currency, that which I am about to describe is most important, if not the most important of all, however less apparent it may be at first sight I have already shown you by what process the Government would become possessed of a large share of the securities representing the debt of the State, by employing a portion of this coin, withdrawn from circulation and replaced by notes, in the purchase of such securities But, Sir, it will be plain that to whatever extent the Currency Commissioners become purchasers of public stock there must be sellers to the same extent, to whom the surplus coin would be paid Those persons would not permit their capital so relieved from one investment to remain idle, but would naturally seek other profitable modes of using it To this extent capital would be more abundant, competition for its employment would be greater, and the tendency would be, to use a familiar phrase, for money to become cheaper No doubt the first tendency would also be for silver to fall in price as it became released from the circulation, the first effect of which would be to lead to its exportation to any country where the merchant found it would yield a profit, and by this operation the equilibrium of value would be instantly restored In short, to abstract so much coin from the mere mechanical purpose of the circulation, supplying its place with convertible paper, would be exactly the same in effect, as if suddenly, in the centre of the Midan, a rich silver mine had been discovered, and which produced silver at little or no cost The first operation would be to lead to an export of that silver in exchange for articles of various descriptions which were really in demand, and by which means to the full extent the real wealth of the country and the aggregate amount of its reproductive capital would be increased Mr Ricardo, in his able pamphlet upon "The High Price of Bullion," published in 1811, has so admirably illustrated this point, that I trust you will permit me to read an extract from it —

*Extract from the works of D. Ricardo, Esq. "The High Price of Bullion."**

If a mine of gold were discovered in either of these countries, the currency of that country would be lowered in value, in consequence of the increased quantity of the precious metals brought into circulation, and would therefore no longer be of the same value as that of other countries. Gold and silver, whether in coin or in bullion, obeying the law which regulates all other commodities, would immediately become articles of exportation; they would leave the country where they were cheap for those countries where they were dear, and would continue to do so as long as the mine should prove productive, and till the proportion existing between capital and money in each country before the discovery of the mine were again established, and gold and silver restored everywhere to one value. In return for the gold exported, commodities would be imported; and though what is usually termed the balance of trade would be against the country exporting money or bullion, it would be evident that she was carrying on a most advantageous trade, exporting that which was in no way useful to her, for commodities which might be employed in the extension of her manufactures and the increase of her wealth.

If, instead of a mine being discovered in any country, a Bank were established, such as the Bank of England, with the power of issuing its notes for a circulating medium, after a large amount had been issued either by way of loans to merchants or by advances to Government, thereby adding considerably to the sum of the currency. The same effect would follow as in the case of the mine. The circulating medium would be lowered in value, and goods would experience a proportionate rise. The equilibrium between that and other nations would only be restored by the exportation of part of the coin.

The establishment of the Bank, and the consequent issue of its notes as well as the discovery of the mine, operate as an inducement to the exportation either of bullion or of coin, and are beneficial only in as far as that object may be accomplished. The Bank substitutes a currency of no value for one most costly, and enables us to turn the precious metals (which though a very necessary part of our capital, yield no revenue) into a capital which will yield one. Dr. A. Smith compares the advantages attending the establishment of a Bank to those which would be obtained by converting our highways into pastures and cornfields, and procuring a road through the air. The highways, like the coin, are highly useful, but neither yield any revenue. Some people might be alarmed at the specie leaving the country and might consider that as a disadvantageous trade which required us to part with it; indeed the law so considers it by its enactments against the exportation of specie; but a very little reflection will convince us that it is our choice and not our necessity that sends it abroad, and that it is highly beneficial to us to exchange that commodity which is superfluous for others which may be made productive. The exportation of the specie may at all times be safely left to the discretion of individuals; it will not be exported more than any other commodity unless its exportation should be advantageous to the country. If it be advantageous to export it no laws can effectually prevent its exportation. Happily in this case, as well as in most others in commerce where there is free competition, the interests of the individual and that of the community are never at variance.

Sir, it is by this process that the capital, which is now unprofitably employed in this country to a great, and I will add so rapidly an increasing extent, will be by the most legitimate means released and restored to the channel of reproductive uses. I may be asked to what extent we expect by this means to economise capital? Sir, that is a point upon which I am not prepared to hazard a speculation, but if we take into account the fact that in the last twenty-four years silver, to the extent of one hundred crores of rupees, or one hundred millions of pounds sterling, has been coined, and that the demand for coin has increased so rapidly, that in the last four years silver, at the rate of nearly twelve crores of rupees, or twelve millions of pounds sterling, has annually been coined, we must arrive at the conclusion that ultimately the amount will be very large. No doubt the introduction of the system must be slow and gradual at first—the time required to establish the necessary machinery and appliances will lead to this—but I regard this limit upon our efforts rather as an advantage than otherwise, because it will afford time for people to become familiar with the system before it assumes large dimensions. Our attention will be first directed to the Presidency towns, from which the system will be gradually extended into the Mofussil until it has permeated over the whole of India.

Before I conclude there are three subjects of a somewhat kindred character to which I would wish shortly to refer. The first has reference to a question which has been much discussed by capitalists in England as well as in India. I refer to the proposals which have been made for the purpose of establishing upon a large scale, and with an adequate capital, a national Banking establishment capable of gradually embracing the great Banking operations in India, and of extending its Branches to the interior trading cities as opportunity might offer. That there is a growing want for such an institution and a rapidly increasing field for its operations no one can doubt. The Government is, therefore, desirous to be understood that

* Pages 1–6 of the Fourth Edition published by Mr. John Murray, 1811.

the plan which has been adopted for the introduction of a legal tender paper currency is not intended in any way to discourage or to interfere with such a project, the operations of which would be those of legitimate Banking transactions in India and exchange operations abroad The second is the subject of economising our cash balances and the great cost to which we are now put by retaining all our cash in our own Treasuries, and disbursing every payment in hard coin This system has been abolished in England for more than half a century, and the far more convenient and economical form of a Bank account has been resorted to Sir, this subject engages the earnest attention of the Government The third and last point to which I wish to allude is the extremely defective condition of our copper coinage During my journey up the country there was no complaint which was so common amongst the lower classes than the sacrifice they had to submit in the native bazars in getting copper change, absolutely needful for their scale of expenditure It is not too much to say that the poorest of the people have been taxed as much as five, and in some cases ten per cent upon their little incomes from this cause Sir, I hope we shall take care, in future, to provide against this evil A large importation of copper coin, to the extent of ten lakhs of rupees, has been ordered from England, a new mint for copper coin alone may shortly be expected at this place, and another is ordered for Bombay, and we trust that the well-founded complaints on this head will soon cease to exist

Sir, I have now laid before you the plan which the Government has devised as the best adapted for India for conferring upon it the great advantages of a perfect system of currency As I said before, we have aimed at no novelty, our effort has been to adapt to our own circumstances principles which the wisdom of great men has defined and laid down with philosophical accuracy and practice, which the experience of the most enlightened commercial countries has approved Sir, these are subjects which have engaged the attention of intellects of the highest order in modern times Newton and Locke and Adam Smith applied their most profound researches to these subjects In this present century they have, perhaps more than any other branch of political science, absorbed the attention of able and acute minds – eminent men like Horner, Huskisson, Lord Liverpool, Ricardo, Tooke, Sir Robert Peel, Lord Overstone, and Norman have brought to this important subject the greatest power of mind and the largest experience Then we have had Parliamentary Committees almost without number, we had the Bullion Committee in 1811, the Committee on the Resumption of Cash payments in 1819, presided over by Sir Robert Peel, then we had the Committee on the Bank Charter in 1831, next the Committee on Banks of Issue in 1840 and 1841, presided over in a most able manner by the present Secretary of State for India, Sir Charles Wood, then we had the Commercial Distress Committee of 1848, then the Bank Charter Committee of 1857 and, lastly, the Committee of 1858—of the last three of which I had the advantage of being a member Well, Sir, it is upon accummulated evidence such as this that we feel that we may, with confidence, proceed, it is to such accumulated and high authority, as I have recounted, that we feel we may safely defer And in doing so, there is this great advantage, that, however diversified the authorities I have quoted may be however much some of them may have differed upon minor points yet upon that which I have laid down as the great cardinal rule to be observed, all are agreed Among all there is but one opinion, that, in order to constitute a sound currency of mixed coin and paper, there are three great essential conditions — *First*, that you should have one single standard of value, whether it be gold or silver, *second*, that the paper shall be at all times convertible into the coin it represents, and, *thirdly*, that a sufficient reserve of bullion shall be maintained in order to provide for that convertibility Sir, all are agreed in regarding these three conditions as the sheet anchor of a sound currency, and it is upon these conditions that the measure I am about to introduce has been carefully framed We know, Sir, that nothing that lies in our power can altogether prevent the recurrence of vicissitudes in trade, but we believe that sound and wise laws will, at least, moderate the severity of otherwise unavoidable misfortunes, while bad laws would infallibly aggravate them Sir, we have done our best in adapting

these great principles to the peculiar circumstances of this country, and now it will become our first duty to give practical effect to the measures which we propose, by the gradual extension to the whole of India of the system I have described, in the confident belief that it will confer advantages of no slight description and will tend to promote the happiness of India by adding to its material property and wealth

Mr Wilson concluded by moving the first reading of a Bill for the introduction of a system of Paper Currency

Sir Bartle Frere seconded the Motion, which was then put and carried, and the Bill read a first time

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APPENDIX XI.

MEMORANDUM, STATEMENTS, AND SUPPLEMENTARY STATEMENTS ON THE PLACING OF CASH BALANCES ON LOAN OR DEPOSIT, SUBMITTED BY MR WALTER BADOCK, C S I, ACCOUNTANT-GENERAL AT THE INDIA OFFICE

1 The system of placing surplus cash balances on temporary loan was inherited from the East India Company, having been apparently initiated by a minute of the (Secret) Finance and Home Committee, dated 6th December 1838 The practice has been followed from that time until now The present procedure follows various orders approved by the Secretary of State in Council in minutes and letters to the Bank of England and to the Broker, for the time being to the Secretary of State Copies of the last three letters to the Bank and the Broker are appended (*see* pages 312-4)

The approved Borrowing List

2 Loans on security are made to certain bankers, discount houses, stock-brokers, &c , of high standing, whose names appear on an approved borrowing list (pages 315-6) Admission to that list is obtained by application addressed to the Broker, who communicates the application to the Accountant-General The necessary enquiries are made by the Chairman of the Finance Committee, this part of the work being regarded as particularly his province in view of the special City knowledge possessed by him Until recently, if the enquiries have proved satisfactory, the name of the applicant firm has been temporarily accepted by him, and he has also intimated to the Accountant-General any limit to be imposed on the amount to be advanced to the firm The full Borrowing List showing the limits imposed has been submitted quarterly to the Finance Committee The present practice however, is to lay the applications, with such information as can be obtained, before the Finance Committee and the Secretary of State in Council, whose approval is signified before any loan is made The full Borrowing List is submitted quarterly to the Secretary of State in Council as before

Amount and Period of Loans

3 Loans are made in sums of 50,000*l* or in multiples of 50,000*l* The usual periods are from three to five weeks, or occasionally six weeks, according to the Accountant-General's calculations as to the term within those limits for which the money can conveniently be spared

4 In fixing the period, the Accountant-General is guided by the fact that the weekly sales of Council Bills, which are the main source of the money in charge of the India Office, may at any time be reduced to a small figure if the exchange shows a tendency to fall away, or may even cease altogether, as has happened more than once, also that payment for the Bills sold on or after a

Wednesday may be postponed at the option of the purchaser to any day up to the following Tuesday Similarly, receipts in respect of issues of Government Stock, or of new railway capital which may have been estimated in the Budget, and which form the second important head of receipts, cannot be relied upon as certainly available on any specific date until the issue has actually taken place, and such issues are dependent on market conditions of which a forecast cannot be made with certainty On the other hand, the Government of India have very large commitments for interest, annuities in purchase of railways, pay, pensions, &c in this country, which have to be met on specific dates, and have also very large payments to make for stores for India, advances to railway companies, and other miscellaneous services, the dates for payment of which cannot be accurately foreseen To provide for payments in the immediate future, therefore, dependence is placed on a sufficiency of loans, arranged to mature on each business day of the year It is not the practice to lend for as long as six weeks, even if a higher rate of interest might be obtained by so doing, until all probable requirements in the interval have been fully provided for Under this system, therefore, the whole balance, except the deposits referred to hereafter, can be made available in not more than six weeks

Securities authorised for Acceptance

5 India Debentures, India Bonds, and Guaranteed Debentures of the several Indian Railway Companies, are taken at their par value

Treasury Bills, Exchequer Bills, Exchequer Bonds, India Sterling Bills Metropolitan Water Board Bills, and London County Bills are accepted at their market value, instead of their nominal amount

The following securities are accepted at their minimum market value, with a cover of 5 per cent, the cover being replaced if the value of the security falls during the currency of the loan —

- Any of the Parliamentary Stocks or Annuities of the United Kingdom
- India $3\frac{1}{2}$ per cent, 3 per cent or $2\frac{1}{2}$ per cent Stock, and Stock Certificates
- India Enfaced Rupee Paper
- Fully-paid Debenture Scrip of the Indian Guaranteed Railway Companies
- Any securities, the interest on which is, or shall be, guaranteed by Parliament
- Metropolitan Consolidated Stocks and Stock Certificates
- Metropolitan Police 3 per cent Debenture Stock
- Metropolitan Water Board "B" Stock, and Stock Certificates
- London County Consolidated Stocks, Stock Certificates and Scrip
- Corporation of London Debentures
- Bonds or Bills of Colonial Governments that have observed the conditions prescribed in the Colonial Stock Act 1900, 63 & 64 Vict c 62, and of British Municipalities with a population of 500,000 or upwards (at present Birmingham, Liverpool, Manchester, and Glasgow), provided that in each case there is an obligation to repay the principal of the bond or bill within a period not exceeding five years from the date on which the loan is granted (*See* letters dated 15th April 1913 on page 314)

Statement No 1 is appended classifying the securities held in respect of loans on 31st March, 30th June, 30th September, and 31st December 1912, and on 31st March 1913

Instructions to Broker

6 The Accountant-General informs the Broker daily of the amount of loans that may be renewed on fresh terms, of the amount of new loans that may be made, or of the amount of loans that must be called He also furnishes the dates for the maturity of the renewals, and new loans The Broker is responsible for obtaining the best possible rate of interest under the conditions assigned to him, viz —

(1) That he is limited to certain dates

(2) That his range of clients is limited to firms on the approved Borrowing List

(3) That he should only accept certain specified securities of a very high class, already enumerated.

7 In any case of difficulty as to interest, the Broker obtains the advice of the Chairman of the Finance Committee The Broker's remuneration for this work has, since 1888, been a percentage on interest earned in each financial year Until 1st July 1911 a commission of 5 per cent on interest earned on loans on security was paid, and one per cent on interest on deposits with banks But the terms were then reconsidered by the Secretary of State in Council, and a new arrangement was made by which $2\frac{1}{2}$ per cent on interest earned on loans on security is paid up to a maximum of 5,000*l* in any financial year, and $1\frac{1}{4}$ per cent thereafter, one per cent on interest on deposits with banks being payable as heretofore The Broker has thus every inducement to obtain the best possible terms for India Office loans

8 I append Statement No 2 showing for the past 20 years the gross interest earned on short loans of Treasury and Gold Standard Reserve Balances, the Broker's commission and the net interest

Method of Payment of Loans

9 The cheque, termed a "write-off," which authorises the transfer of the amount of each loan to the account of Mr Horace H Scott, the Broker, at the Bank of England, and which is signed and countersigned in accordance with the provisions of 22 and 23 Vict, c 41, s 3, is worded as follows —

"Credit Mr Horace H Scott, either upon the recognised Securities being transferred to the Stock Account of the Secretary of State in Council of India, or upon the receipt of such Securities to be held by the Bank for account of the Secretary of State in Council of India'

10 Consequently the Bank of England does not place the amount of the loan to the account of Mr Scott until it is in possession of the requisite securities on behalf of the Secretary of State, which are examined by the Bank in accordance with standing instructions received from this Office (*See* letters on pages 312–14) As evidence of the transfer of stock to the Stock Account of the Secretary of State in Council of India (constituted under 21 and 22 Vict, c 106, s 45), Mr Scott transmits to the Accountant-General, together with the agreement for the loan, signed by the borrower, stock receipts for the amount of stock specified in the agreement The Form of Agreement in use was originally drawn up by the Legal Adviser to this Office, and has, with minor alterations approved by him, been in the same form since 1861 A copy is appended (*see* pages 314–15)

11 Securities transferable by delivery are entered by the Bank of England in the Secretary of State's Security Pass Book, which is obtained from the Bank on the morning following each loan, and is examined in the Accountant-General's Department

12 When a loan is paid off, the stock that has been transferred to the Secretary of State's account as security is re-transferred "into such names and in such amounts as Mr Horace H Scott, the Broker, may direct' (*i e*, on account of the borrowers), under the General Letter of Attorney granted to the Bank under the provisions of 21 and 22 Vict, c 106, s 47 The Bank acts under the Power of Attorney upon a direction prepared by the Accountant-General and signed by two Members of Council, and countersigned by the Under Secretary or Assistant Under Secretary of State

Audit

13 On the last day of each month, the Bank of England transmits to the Auditor of the Home Accounts a statement showing the amount of Stock of each description standing in the Secretary of State's account, and the amount of bearer securities held by the Bank on behalf of the Secretary of State Every agreement with a borrower is shown to the Auditor, and the accuracy of all transactions arising out of it is tested in his Department

Deposits

14. It is found that the Broker is usually unable to lend on security to approved borrowers on the existing borrowing list a larger sum than from 10,000,000*l* to 11,000,000*l*, and in 1909, 1910, 1911, and portion of 1912, the surplus balance available in excess of that amount was placed on deposit with certain London banks by the Broker, after consultation in each case with the Chairman of the Finance Committee In such cases, the deposit was usually for a period not exceeding two months, but sums lent in this way on account of the Gold Standard Reserve were sometimes placed for three months, if it seemed advantageous to do so, for it was not considered probable that they would be required before the expiration of that period The balances were, however, so largely reduced in the summer and autumn of 1912 by the purchases of silver and the discharge of temporary debt that deposits as they matured were all called in, the last having been called on 21st December

Reliability of System

15 It may be mentioned that, whereas in the last twenty years the interest earned on short loans and deposits has amounted to 2,687,015*l* (*see* Statement No 2), and in recent years the number of transactions has averaged 1,500 a year, excluding exchanges of stock, the sums lent have always been available, with the interest, on the dates specified in the agreement, with two exceptions only, these were cases of firms holding loans of 50,000*l* each In one case the whole of the principal money, and the interest due, were recovered, in the other, a small loss of principal was counterbalanced by the high rate of interest on securities held until realisation

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LAST THREE INSTRUCTIONS TO BANK OF ENGLAND AND TO THE BROKER

India Office, Whitehall, S W,
16th June 1893

Gentlemen,

The attention of the Secretary of State for India in Council has been drawn to the circumstance that the list, furnished to you in the letter from this Office dated the 25th February 1881 of the securities which may be accepted in respect of loans made on his behalf by Mr Scott, the broker to this Office, requires modification

I am accordingly directed to acquaint you that Exchequer Bills, Exchequer Bonds, Treasury Bills, India Debentures, and Guaranteed Debentures of the several Indian Railway Companies, may be accepted at their par value, and the following securities at their minimum market value with a cover of five per cent viz —

Any of the Parliamentary Stocks or Annuities of the United Kingdom
India $3\frac{1}{2}$ or 3 per cent Stock
India Enfaced Rupee Paper
Any Securities the Interest of which is or shall be guaranteed by Parliament
Consolidated Stock created by the Metropolitan Board of Works, or by the London County Council, or Debenture Stock created by the Receiver for the Metropolitan Police District

I am,
Gentlemen,
Your obedient Servant,
A Godley

The Governor and Company of the
Bank of England, E C

India Office, Whitehall, S W,
16th June 1893

Sir,

I am directed by the Secretary of State for India to transmit to you a copy of a letter which has this day been sent to the Governor and Company of the Bank of England, regarding the securities which may be accepted in respect of loans made on behalf of this Office

You will observe that in that letter it is stated that Treasury Bills may be accepted at their par value, but I have to point out that this is not intended to interfere with the practice of recent years, according to which you have accepted them at their market value only, instead of their nominal amount, when their unexpired period has seemed to you to call for it

I am,
Sir,
Your obedient Servant,
A GODLEY

Willie A W Scott, Esq,
57, Old Broad Street, E C

India Office,
20th February 1913

Gentlemen,

The attention of the Secretary of State for India in Council has been drawn to the circumstance that the list furnished to you in the letter from this Office dated the 16th June 1893, of the securities which may be accepted in respect of loans made on his behalf by the broker to this Office, requires modification

I am accordingly directed to acquaint you that India Bonds, India Debentures (when any are existent), and Guaranteed Debentures of the several Indian Railway Companies may be accepted at their par value Treasury Bills, Exchequer Bills, India Sterling Bills, Metropolitan Water Board Bills, Exchequer Bonds, and London County Bills may be accepted at their market value

The following Securities may be accepted at their minimum market value, with a cover of 5 per cent, viz —

Any of the Parliamentary Stocks or Annuities of the United Kingdom
India 3½, 3, or 2½ per cent Stock and Certificates
India Enfaced Rupee Paper
Guaranteed Debenture Scrip (fully paid) of Indian Railway Companies
Any Securities the interest of which is or shall be guaranteed by Parliament
Metropolitan Consolidated Stocks and Certificates
Metropolitan Water Board "B" Stock and Certificates
Metropolitan Police 3 per cent Debenture Stock
London County Consolidated Stocks Certificates, and Scrip
Corporation of London Debentures

I am, Gentlemen,
Your obedient Servant,
T W HOLDERNESS

The Governor and Company of
the Bank of England

India Office,
26th February 1913

Sir

I am directed by the Secretary of State for India in Council to transmit to you for your guidance a copy of a letter which has this day been sent to the Governor and Company of the Bank of England regarding the securities which may be accepted in respect of loans made on behalf of this Office

I am, Sir,
Your obedient Servant,
T W HOLDERNESS

Horace H Scott, Esq

India Office,
15th April 1913

Gentlemen,

In continuation of the letter from this office dated 26th February 1913 A G I am directed to inform you that the Secretary of State for India in Council has added the following securities to the list of those which may be accepted against loans granted on his behalf by the broker to this office, bonds or bills of Colonial Governments that have observed the conditions prescribed in the Colonial Stock Act, 1900, 63 and 64 Vict c 62, and of British Municipalities with a population of 500,000 or upwards, provided that in each case there is an obligation to repay the principal of the bond or bill within a period not exceeding five years from the date on which the loan is granted A margin of 5 per cent over the market value should be required in the case of the above classes of security

* At present Birmingham Liverpool, Manchester, Glasgow

I am, Gentlemen,
Your obedient Servant,
LIONEL ABRAHAMS

The Governor and Company of
the Bank of England

India Office,
15th April 1913

Sir,

I am directed to acknowledge the receipt of your letter of the 26th February 1913, on the subject of enlarging the classes of securities which may be accepted as securities for loans, and in reply to enclose for your guidance a copy of a letter which has this day been addressed to the Governor and Company of the Bank of England

I am, Sir,
Your obedient Servant,
LIONEL ABRAHAMS

Horace H Scott, Esq

COPY OF FORM OF AGREEMENT FOR LOAN

LONDON,

______________________ 191__

To the Right Honourable

The Secretary of State in Council of India

______ request that you will advance to ________ the sum of ______________________________ pounds on the under-mentioned Securities or any other Securities which by consent may be substituted therefor, which Advance ________ engage to repay on the ______________________ together with Interest at the rate of

£ ______________ per Cent per Annum In case the said Securities should not be redeemed on the said ______________, _____ hereby authorize you to sell the same, and, so far as the proceeds of sale will allow, to repay your Advance thereon with Interest, and_______ further engage that in the event of any of the said Securities upon which a cover of 5 per Cent has been or may be given falling in value before the repayment of this Loan to an extent which shall render their value less than 5 per Cent above the amount advanced against them _______will forthwith, on application on your part, add to the Securities so as to maintain the stipulated cover of 5 per Cent, and in default of __ so doing________hereby authorize you to sell immediately all the Securities accepted in respect of this Advance, and to repay the Advance with all Interest then due, so far as the proceeds of sale will allow, and_______ hereby undertake to repay any deficiency which the proceeds of sale may fail to discharge

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The Securities above referred to are

N B—In consequence of the decision of the Judicial Committee of the Privy Council in the matter of Sir Stuart Samuel's seat in Parliament the following note is now printed on forms of agreement for loans —

The attention of firms applying for advances is drawn to the following extract from 22 George III, Chapter 45, Section 10 "In every such contract, agreement or "commission [that is, in every contract agreement or commission, for or on account of, "the public service] to be made entered into or accepted as aforesaid, there shall be "inserted an express condition that no Member of the House of Commons be admitted "to any share or part of such contract agreement or commission or to any benefit to "arise therefrom" The Statute does not apply to contracts, &c, entered into by incor-"porated trading companies in their corporate capacity (see Section 3)

Firms on the Borrowing List approved by the Secretary of State in Council on 31st March 1913

Alexanders and Company, Limited
Allen, A J, and Son
Allen, Harvey and Ross
Anglo-Egyptian Bank, Limited
Anglo-Foreign Banking Company, Limited
Baker, Duncombe, and Company, Limited
Barclay and Company, Limited
Biedermann, A, and Company
Blydenstein, B W, and Company
Booth and Partridge
Bourke, Cuthbertson, and Company,

FIRMS ON THE BORROWING LIST APPROVED BY THE SECRETARY OF STATE IN COUNCIL ON 31ST MARCH 1913—*continued*

Brightwen and Company
Bristowe and Head
Capel, J , and Company
Chartered Bank of India, Australia, and China
Cohen, Laming, and Company
Cunliffe, R , Sons, and Company
Daniell and Daniell
De Zoete and Gorton
Eastern Bank, Limited
Elles, J , and Son
Francis and Praed
Gillett Brothers and Company
Haarbleicher and Schumann
Halford, W , and Company
Hohler and Company
Hong Kong and Shanghai Banking Corporation
Hopkins and Giles
Keyser, A , and Company
King and Foà
Laurie, Milbank, and Company
Lazard Brothers and Company
Lloyd and Norbury
London County and Westminster Bank, Limited
London and South-Western Bank, Limited
Lyon and Tucker
Matthey, Harrison, and Company
Mercantile Bank of India, Limited
Messel, L , and Company
Mullens, Marshall, and Company
National Bank, Limited
National Bank of India, Limited
National Bank of New Zealand, Limited
National Discount Company, Limited
National Provincial Bank of England, Limited
Panmure Gordon and Company
Pember and Boyle
Price Brothers
Provincial Bank of Ireland, Limited
Reeves, Whitburn, and Company
Rowe and Pitman
Ryder, Mills, and Company
Samuel Montagu and Company
Scrimgeour, J and A
Sheppards and Company
Sherwood, H , and Company
Smith, St Aubyn, and Company
Steer, Lawford, and Company
Tomkinson, Brunton and Company
Union Discount Company of London, Limited
Waley and Wilbraham
Wedd, Jefferson, and Company

Statement No 1

Securities held for Loans from Cash Balances on certain dates

Description of Security	31st March 1912	30th June 1912	30th September 1912	31st December 1912	31st March 1913
Stock inscribed on Books of Bank of England					
	£	£	£	£	£
Annuities 2½ per cent Stock	—	5,000	—	—	—
2½ per cent Consolidated Stock	856,000	1,083,700	942,700	162,500	302,500
Corporation of London 3½ per cent Stock	10,000	10,000	10,000	—	10,000
Guaranteed 2¾ per cent Stock	148,000	393,500	89,000	49,000	213,000
" 3 per cent Stock	—	10,000	—	—	—
India 3½ per cent Stock	173 000	244,000	219,000	10,000	85,000
" 3 per cent Stock	114 200	163,700	195,200	100,000	197,000
" 2½ per cent Stock	54,000	188,000	127,000	171,000	35,000
Local Loans 3 per cent Stock	52,000	48,000	38,000	—	—
London County 3 per cent Consolidated Stock	2 000	39 000	—	15,000	15,000
" County 2½ per cent Consolidated Stock	170 000	150,000	59,000	58,000	24,000
Metropolitan Consolidated 3 per cent Stock	1,000	—	—	—	—
" Consolidated 2½ per cent Stock	—	9,000	—	—	—
" Water Board "B" 3 per cent Stock	—	—	7 000	—	—
Transvaal Government 3 per cent Guaranteed Stock, 1923/53	223,500	—	—	—	72,000
Transvaal Government 3 per cent Guaranteed Stock 1958	133 000	214,000	68 000	44 000	23,000
	1,936 700	2 557 900	1,754 900	609 500	976,500
Bearer Securities held by Bank of England					
Indian Railway Debentures —					
Assam Bengal Railway	485,700	621,300	681,700	636,500	582,600
Bengal-Nagpur Railway	2,243,000	1,921,000	2,340,000	1,742,100	1,524,400
Indian Midland Railway	859,200	615,500	668,000	503,000	430,400
Madras Railway	10,000	20,000	15,000	15,000	55,000
Madras and Southern Mahratta Railway	325,200	545,300	769,300	530,000	477 000
Rohilkund and Kumaon Railway	25 000	20,000	25,000	15,000	25 000
South Indian Railway	445,000	425,000	755,000	765,000	586,000
Southern Mahratta Railway	80,000	20,000	20 000	10 000	5 000
Canada Guaranteed Bonds	6,000	1,000	14,500	46 000	47,000
2½ per cent Consolidated Stock Certificates	912,300	774 000	828 500	1 183,500	1,166 600
Corporation of London Debentures	15,000	19 000	58,000	41,000	31,000
Corporation of London Stock Certificates	38,000	31,000	6 000	6 000	17,000
Egyptian Guaranteed Bonds	201,700	208,200	272,600	304,900	222,200
Exchequer Bonds	652 400	179,100	107 200	554 700	574,700
Greek Guaranteed Bonds	—	800	—	—	—
Guaranteed 2¾ per cent Stock Certificates	203,700	169 000	76,900	82,200	109,200
" 3 per cent Stock Certificates	5,000	5,000	6,500	38,500	38,500
India Bills	338,000	92,000	55,000	—	—
India Stock Certificates	1,033,900	1,041,300	1,102,800	1,233,500	922,500
India Bonds	531 400	699,100	652,600	547,300	412,300
Local Loans Stock Certificates	30,000	10,000	75,300	109,100	86,000
London County Bills	29,000	—	30,000	65,000	100,000
London County Stock Certificates	96,600	63,300	88,400	120,600	150,000
Metropolitan Consolidated Stock Certificates	227,200	102,700	71,500	215,200	167 900
Metropolitan Water Board Bills and Stock Certificates	136,500	133 500	243 000	50,500	598 000
Transvaal Government Guaranteed Stock Certificates	416,500	365,000	312,000	374,000	218,100
Treasury Bills	—	—	102,000	—	—
	9,376,300	8,082,700	9 676,800	9,191,600	8,546,400
	Rs	Rs	Rs	Rs	Rs
India Rupee Paper	9,60,000	6,62,000	14,29,000	28,35,000	39,87,000
At 1s 4d	£ 64,000	£ 44,133	£ 95,267	£189,000	£265,800
Total £	11,377,000	10,684,733	11,526,967	9,990,100	9,788,700
	Amount of Loans outstanding in respect of which the above Securities were held				
£	10,200,000	9,400,000	10,300,000	8,850,000	8,650,000

STATEMENT No. 2

Showing the Gross Amount, and the Amount after deducting the Broker's Commission of, (a) Interest realised from the temporary investment of the Cash Balances of the Secretary of State for India and of (b) Interest on Cash placed at short notice from the Balances of the Gold Standard Reserve not invested in Securities.

Year	Treasury Balance: Short Loans: Gross Amount	Treasury Balance: Short Loans: Broker's Commission	Treasury Balance: Short Loans: Net Amount	Treasury Balance: Deposits with Banks: Gross Amount	Treasury Balance: Deposits with Banks: Broker's Commission	Treasury Balance: Deposits with Banks: Net Amount	Gold Standard Reserve: Short Loans: Gross Amount	Gold Standard Reserve: Short Loans: Broker's Commission	Gold Standard Reserve: Short Loans: Net Amount	Gold Standard Reserve: Deposits with Banks: Gross Amount	Gold Standard Reserve: Deposits with Banks: Broker's Commission	Gold Standard Reserve: Deposits with Banks: Net Amount	Total: Gross Amount	Total: Broker's Commission	Total: Net Amount
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
1893-94	10,293	515	9,778	—	—	—	—	—	—	—	—	—	10,293	515	9,778
1894-95	3,373	169	3,204	—	—	—	—	—	—	—	—	—	3,373	169	3,204
1895-96	9,650	482	9,168	—	—	—	—	—	—	—	—	—	9,650	482	9,168
1896-97	34,435	1,722	32,713	—	—	—	—	—	—	—	—	—	34,435	1,722	32,713
1897-98	20,772	1,039	19,733	—	—	—	—	—	—	—	—	—	20,772	1,039	19,733
1898-99	30,562	1,528	29,034	—	—	—	—	—	—	—	—	—	30,562	1,528	29,034
1899-1900	51,384	2,569	48,815	—	—	—	—	—	—	—	—	—	51,384	2,569	48,815
1900-01	59,114	2,955	56,159	—	—	—	—	—	—	—	—	—	59,114	2,955	56,159
1901-02	79,651	3,983	75,668	—	—	—	—	—	—	—	—	—	79,651	3,983	75,668
1902-03	145,306	7,266	138,040	—	—	—	—	—	—	—	—	—	145,306	7,266	138,040
1903-04	140,038	7,002	133,036		—	—	—	—	—	—	—	—	140,038	7,002	133,036
1904-05	168,398	8,420	159,978		—	—	—	—	—	—	—	—	168,398	8,420	159,978
1905-06	218,185	10,909	207,276	—	—	—	—	—	—	—	—	—	218,185	10,909	207,276
1906-07	209,656	10,361	199,295	—	—	—	—	—	—	—	—	—	209,656	10,361	199,295
1907-08	137,698	6,596	131,102	—	—	—	—	—	—	—	—	—	137,698	6,596	131,102
1908-09	49,669	2,432	47,237	—	—	—	1,270	64	1,206	—	—	—	50,939	2,496	48,443
1909-10	128,163	6,336	121,827	8,326	83	8,243	8,550	428	8,122	11,640	116	11,524	156,679	6,963	149,716
1910-11	254,685	12,819	241,866	122,236	1,222	121,014	6,380	234	6,146	14,844	448	14,396	398,145	14,723	383,422
1911-12	*51,190 / 198,565	2,559 / 4,355	242,841	134,558	1,346	133,212	*162 / 338	8 / 7	485	34,025	340	33,685	418,838	8,615	410,223
1912-13	280,335	5,908	274,427	98,730	987	97,743	18,745	311	18,434	21,826	218	21,608	419,636	7,424	412,212
Total	2,281,122	99,925	2,181,197	363,850	3,638	360,212	35,445	1,052	34,393	112,335	1,122	111,213	2,792,752	†105,737	2,687,015

* Paid to 15th June 1911, after which date the rate of commission was 2½ per cent. up to a maximum of 5,000*l*. in any financial year, and 1¼ per cent. above 5,000*l*.

† Average for 20 years 5,287*l*. per annum.

STATEMENT No 3 showing the Balance and Cash transactions of the India Office for each day in 1912-13

EXPLANATORY NOTE

A

During part of 1912–13 the India Office balance was held in three divisions, viz —

1 Money at Bank of England
2 Money lent on security to approved borrowers
3 Money deposited at interest with Banks other than the Bank of England

During the remainder of the year the balance was held in only two divisions viz, money at Bank of England and money lent on security to approved borrowers The change was due to a reduction of the total balance which made it possible to place with the approved borrowers the whole sum available for being lent at interest

The following statement summarises the daily changes in the amount and form of the balance and the causes to which they were due

It will be noticed that while the closing balance of each day (column 3) includes money on loan and deposit, the receipts and payments in columns 1 and 2, which account for the difference of the amount of each day's closing balance from that of the preceding day, do not include receipts due to the repayment of loans and deposits or payments due to their grant The explanation is that the repayment or grant of a loan or deposit affects only the form but not the amount of the closing balance, since it involves merely a transfer from or to the second or third of the divisions shown above to or from the first division (money at Bank of England) The repayments and grants of loans and deposits are therefore shown separately in columns 7 to 10

B

With reference to column 4 it should be explained that an understanding exists with the Bank of England, believed to date from 1859, that (in order to remunerate the Bank for services for which no direct charge is made, such as the work done in connection with the sale of Council Bills and Telegraphic Transfers) the closing balance of each day shall be not less than 500,000*l* The fact that the balance at the Bank usually exceeds 500,000*l*, as it did on each day in 1912–13, is due to the following causes —

(1) *The Bank requires that exceptionally heavy payments* to be made on any day shall be provided for in the balance of the previous evening

(2) Council Bills and Telegraphic Transfers sold on any day except Tuesday (when payment is required on the day of purchase) may be made at the option of the purchaser up to 1 o'clock on any day not later than the following Tuesday The money is usually received at the Bank of England too late to be lent until the following morning Similarly, the receipt at the Bank of England of money from other Government Departments is usually not known at the India Office until it appears in the Pass Book received there the next morning

(3) The practice of granting all loans and deposits in sums of 50,000*l* or multiples thereof, sometimes causes the balance at the Bank of England to be higher than it would be if sums of less than 50,000*l* were lent

(4) Some reserve in excess of 500,000*l* must be maintained to meet outstanding warrants, the date of presentation of which cannot accurately be foreseen

STATEMENT No 3

Showing the Balance and Cash transactions of the India Office for each day in 1912-13

(Including transactions of the Gold Standard Reserve, but excluding sums in the hands of Sub-Accountants)

Date	Amount of Closing Balance and transactions affecting it			Form in which Closing Balance was held			Transactions affecting Form but not Amount of Closing Balance				Rate of Interest obtained on Loans granted and renewed
	Receipts, excluding Loans and Deposits repaid (1)	Payments excluding Loans and Deposits granted (2)	Closing Balance (i.e. Money at Bank of England on loan and on deposit with other Banks) (3)	At Bank of England (4)	On loan (5)	On deposit with other Banks (6)	Loans repaid (7)	Deposits repaid (8)	Loans granted (9)	Deposits granted (10)	(11)
1912	£	£	£	£	£	£	£	£	£	£	Per cent
31st March	—	—	19,416,692	1,351,692	10,200,000	7,865,000	—	—	—	—	—
Monday, 1st April	566,784	1,392,782	18,590,691	625,694	10,100,000	7,865,000	300,000	—	200,000	—	3
Tuesday, 2nd April	2,458	112,052	18,481,100	566,100	10,050,000	7,865,000	100,000	—	50,000	—	3
Wednesday, 3rd April	269,923	85,356	18,665,667	800,667	10,000,000	7,865,000	250,000	—	200,000	—	3
Thursday, 4th April	129,989	108,188	18,687,468	1,672,468	10,000,000	7,015,000	—	850,000	—	—	3
Saturday, 6th April	104,257	1,341,643	17,450,082	1,385,082	9,750,000	6,315,000	250,000	700,000	—	—	3
Tuesday, 9th April	14,338	1,025,778	16,438,642	573,642	9,800,000	6,065,000	50,000	250,000	100,000	—	3
Wednesday, 10th April	186,000	18,594	16,606,048	741,048	9,800,000	6,065,000	—	—	—	—	3
Thursday, 11th April	25,333	9,620	16,621,761	556,761	10,000,000	6,065,000	50,000	—	250,000	—	$3\frac{1}{4}$
Friday, 12th April	183,836	128,444	16,677,153	562,153	10,050,000	6,065,000	150,000	—	200,000	—	$3\frac{1}{4}$
Saturday, 13th April	224	23,359	16,654,018	539,018	10,050,000	6,065,000	—	—	—	—	$3\frac{1}{4}$
Monday, 15th April	24,670	9,105	16,669,583	554,583	10,050,000	6,065,000	100,000	—	100,000	—	$3\frac{1}{4}$
Tuesday, 16th April	9,088	173,151	16,505,520	540,520	9,900,000	6,065,000	200,000	—	50,000	—	$3\frac{1}{4}$
Wednesday, 17th April	210,015	29,090	16,686,445	771,445	9,850,000	6,065,000	50,000	—	—	—	3
Thursday, 18th April	69,687	48,605	16,707,527	592,527	10,050,000	6,065,000	250,000	—	150,000	—	3
Friday, 19th April	197,259	19,873	16,884,913	569,913	10,250,000	6,065,000	100,000	—	300,000	—	3
Saturday, 20th April	7,026	27,760	16,864,179	549,179	10,250,000	6,065,000	50,000	—	50,000	—	3
Monday, 22nd April	17,836	25,915	16,856,100	541,100	10,250,000	6,065,000	50,000	—	50,000	—	3
Tuesday, 23rd April	2,611	12,596	16,846,115	531,115	10,250,000	6,065,000	150,000	—	150,000	—	3
Wednesday, 24th April	316,160	30,956	17,131,319	866,319	10,200,000	6,065,000	50,000	—	—	—	$2\frac{3}{4}$
Thursday, 25th April	167,723	62,412	17,236,630	621,630	10,200,000	6,415,000	50,000	—	50,000	350,000	3
Friday, 26th April	169,819	63,919	17,342,530	627,530	10,300,000	6,415,000	—	—	100,000	—	3
Saturday, 27th April	15,582	6,235	17,351,877	636,877	10,300,000	6,415,000	100,000	—	100,000	—	3
Monday, 29th April	104,820	28,115	17,428,582	613,582	10,400,000	6,415,000	100,000	—	200,000	—	$2\frac{3}{4}$
Tuesday, 30th April	22,677	2,060	17,449,199	734,199	10,300,000	6,415,000	200,000	—	100,000	—	$2\frac{3}{4}$
Wednesday, 1st May	625,932	85,250	17,989,881	774,881	10,300,000	6,915,000	—	—	—	500,000	—
Thursday, 2nd May	259,256	25,966	18,223,171	558,171	10,300,000	7,365,000	—	300,000	—	750,000	$2\frac{5}{8}$
Friday, 3rd May	906,838	50,700	19,079,309	664,309	10,300,000	8,115,000	—	—	—	750,000	$2\frac{3}{4}$
Saturday, 4th May	126,786	127,960	19,078,135	563,135	10,100,000	8,415,000	200,000	—	—	300,000	$2\frac{3}{4}$
Monday, 6th May	17,542	10,797	19,084,880	569,880	10,100,000	8,415,000	—	—	—	—	$2\frac{5}{8}$
Tuesday, 7th May	30,890	21,142	19,094,628	529,628	10,150,000	8,415,000	—	—	50,000	—	$2\frac{5}{8}$
Wednesday, 8th May	298,084	8,173	19,384,539	769,539	10,200,000	8,415,000	—	—	50,000	—	$2\frac{1}{2}$
Thursday, 9th May	961	82,718	19,302,782	537,782	10,350,000	8,415,000	150,000	—	300,000	—	$2\frac{3}{8}$

Friday,	10th May	312,463	81,666	19,533,579	543,579	10,400,000	8,590,000	—	—	50,000	175,000	2¾
Saturday,	11th May	139,651	14,547	19,658,683	568,683	10,400,000	8,690,000	—	50,000	—	150,000	2½
Monday,	13th May	24,888	29,814	19,653,757	613,757	10,350,000	8,690,000	200,000	—	150,000	—	2½
Tuesday,	14th May	59,430	25,791	19,687,396	647,396	10,350,000	8,690,000	—	—	—	—	2½
Wednesday,	15th May	221,198	464,064	19,444,530	754,530	10,000,000	8,690,000	400,000	—	50,000	—	2½
Thursday,	16th May	51,081	186,249	19,312,362	622,362	10,000,000	8,690,000	50,000	—	50,000	—	2½
Friday,	17th May	210,023	45,828	19,476,557	586,557	10,200,000	8,690,000	—	—	200,000	—	2½
Saturday,	18th May	76,998	24,142	19,529,413	539,413	10,300,000	8,690,000	—	—	100,000	—	2½
Monday,	20th May	2,661	10,627	19,521,447	531,447	10,300,000	8,690,000	—	—	—	—	2½
Tuesday,	21st May	36,912	4,086	19,554,303	564,303	10,300,000	8,690,000	—	—	—	—	2½
Wednesday,	22nd May	117,181	16,124	19,655,360	665,360	10,300,000	8,690,000	50,000	—	50,000	—	2½
Thursday,	23rd May	203,301	101,734	19,756,927	566,927	10,500,000	8,690,000	—	—	200,000	—	2½
Friday,	24th May	300,222	217,030	19,840,119	550,119	10,600,000	8,690,000	—	—	100,000	—	2½
Saturday,	25th May	10,195	13,401	19,836,913	546,913	10,600,000	8,690,000	—	—	—	—	2½
Tuesday,	28th May	19,019	29,003	19,826,929	536,929	10,600,000	8,690,000	—	—	—	—	2½
Wednesday,	29th May	186,030	12,215	20,000,744	710,744	10,600,000	8,690,000	—	—	—	—	2⅞
Thursday,	30th May	100,716	18,931	20,082,559	792,559	10,600,000	8,690,000	150,000	—	150,000	—	3
Friday,	31st May	152,167	184,143	20,050,583	660,583	10,700,000	8,690,000	50,000	—	150,000	—	2½
Saturday,	1st June	2,822	399,854	19,653,551	613,551	10,850,000	8,190,000	—	500,000	150,000	—	2½
Monday,	3rd June	19,345	22,987	19,619,909	609,909	10,850,000	8,190,000	50,000	—	50,000	—	2½
Tuesday,	4th June	25,761	38,572	19,637,098	597,098	10,850,000	8,190,000	—	—	—	—	2½
Wednesday,	5th June	217,166	106,412	19,747,852	757,852	10,750,000	8,240,000	100,000	—	—	50,000	2½
Thursday,	6th June	44,160	8,019	19,784,293	644,293	10,900,000	8,240,000	—	—	150,000	—	2½
Friday,	7th June	208,994	138,594	19,854,693	564,693	11,050,000	8,240,000	—	—	150,000	—	2½
Saturday,	8th June	12,708	26,325	19,841,076	551,076	11,050,000	8,240,000	—	—	—	—	2½
Monday,	10th June	34,921	25,692	19,850,308	560,308	11,050,000	8,240,000	—	—	—	—	2½
Tuesday,	11th June	27,978	10,767	19,867,519	577,519	11,050,000	8,240,000	—	—	—	—	2½
Wednesday,	12th June	145,490	23,075	19,989,934	699,934	11,050,000	8,240,000	—	—	—	—	2½
Thursday,	13th June	29,100	7,666	20,011,368	721,368	11,050,000	8,240,000	50,000	—	50,000		2½
Friday,	14th June	473,893	87,371	20,397,890	2,507,890	10,850,000	7,040,000	200,000	1,200,000	—	—	2¾
Saturday,	15th June	69,916	2,014,971	18,452,832	612,832	10,800,000	7,040,000	100,000	—	50,000	—	2¾
Monday,	17th June	5,916	280,110	18,178,638	538,638	10,600,000	7,040,000	200,000	—	—	—	2¾
Tuesday,	18th June	33,976	14,999	18,197,615	557,615	10,600,000	7,040,000	50,000	—	50,000	—	2¾
Wednesday,	19th June	74,729	6,924	18,265,420	625,420	10,600,000	7,040,000	100,000	—	100,000	—	2¾
Thursday,	20th June	2,696	122,894	18,145,222	555,222	10,550,000	7,040,000	150,000	—	100,000	—	2¾
Friday,	21st June	219,561	207,739	18,157,044	617,044	10,500,000	7,040,000	100,000	—	50,000	—	2¾
Saturday,	22nd June	3,389	141,269	18,019,164	579,164	10,400,000	7,040,000	100,000	—	—	—	
Monday,	24th June	24,857	16,192	18,027,829	587,829	10,400,000	7,040,000	100,000	—	100,000	—	2¾
Tuesday,	25th June	27,498	114,348	17,940,979	550,979	10,350,000	7,040,000	50,000	—	—	—	2¾
Wednesday,	26th June	97,733	31,949	18,006,763	716,763	10,250,000	7,040,000	250,000	—	150,000	—	2¾
Thursday,	27th June	22,476	122,044	17,907,195	917,195	9,950,000	7,040,000	300,000	—	—	—	2¾
Friday,	28th June	322,524	408,556	17,821,164	1,231,164	9,550,000	7,040,000	400,000	—	—	—	2¾
Saturday,	29th June	18,606	704,296	17,135,474	2,295,474	9,400,000	5,440,000	150,000	1,600,000	—	—	2¾
Carried forward		9,477,919 [illegible]	11,759,137 [illegible]	—	—	—	—	6,300,000 [illegible]	3,450,000 [illegible]	3,500,000 [illegible]	1,025,000 [illegible]	—

Statement No 3—(continued)

Date		Amount of Closing Balance and transactions affecting it: Receipts excluding Loans and Deposits repaid (1)	Payments excluding Loans and Deposits granted (2)	Closing Balance (of Money at Bank of England, on loan and on deposit with other Banks) (3)	Form in which Closing Balance was held: At Bank of England (4)	On loan (5)	On deposit with other Banks (6)	Transactions affecting Form but not Amount of Closing Balance: Loans repaid (7)	Deposits repaid (8)	Loans granted (9)	Deposits granted (10)	Rate of Interest obtained on Loans granted and renewed (11)
1912		£	£	£	£	£	£	£	£	£	£	Per cent
Brought forward		9,477,919	11,759,137	-		—		6,300,000	5,450,000	5,500,000	3,025,000	—
Monday,	1st July	24,158	1,658,733	15,500,899	660,899	9,400,000	5,440,000	50,000	—	50,000	—	2½
Tuesday	2nd July	64,618	128,868	15,436,649	596,649	9,400,000	5,440,000	50,000	—	50,000	—	2½
Wednesday	3rd July -	127,885	115,458	15,449,076	809,076	9,200,000	5,440,000	200,000	—	—	—	2½
Thursday,	4th July	62,008	120,959	15,390,125	1,915,125	9,100,000	4,375,000	150,000	1,065,000	50,000	—	2¼
Friday,	5th July	289,803	1,550,918	14,128,980	653,980	9,100,000	4,375,000	50,000	—	50,000	—	2¼
Saturday,	6th July	6,669	48,613	14,087,036	612,036	9,100,000	4,375,000	—	—	—	—	2¼
Monday,	8th July	1,072	20,385	14,067,723	592,723	9,100,000	4,375,000	100,000	—	100,000	—	2¼
Tuesday	9th July -	11,544	27,163	14,052,104	577,104	9,100,000	4,375,000	200,000	—	200,000	—	2½
Wednesday	10th July	41,631	26,602	14,067,733	592,733	9,100,000	4,375,000	100,000	—	100,000	—	2¼
Thursday,	11th July	3,710	10,565	14,060,908	585,908	9,100,000	4,375,000	50,000	—	50,000	—	2¼
Friday,	12th July	298,634	222,682	14,136,860	561,860	9,200,000	4,375,000	200,000	—	300,000	—	2¼
Saturday	13th July	1,369	16,855	14,121,374	546,374	9,200,000	4,375,000	100,000	—	100,000	—	2¼
Monday,	15th July,	7,242	83,793	14,044,823	569,823	9,100,000	4,375,000	150,000	—	50,000	—	[illegible]
Tuesday,	16th July -	3,712	179,573	13,868,962	543,962	8,950,000	4,375,000	200,000	—	50,000	—	[illegible]
Wednesday,	17th July	37,110	14,541	13,891,531	566,531	8,950,000	4,375,000	100,000	—	100,000	—	[illegible]
Thursday,	18th July -	5,601	100,952	13,796,180	571,180	8,850,000	4,375,000	200,000	—	100,000	—	[illegible]
Friday,	19th July	143,448	120,709	14,118,919	693,919	9,050,000	4,375,000	50,000	—	250,000	—	[illegible]
Saturday,	20th July -	653	19,509	14,100,063	525,063	9,200,000	4,375,000		—	150,000	—	[illegible]
Monday,	22nd July	7,068	15,767	14,091,364	516,364	9,200,000	4,375,000	-	—	—	—	[illegible]
Tuesday,	23rd July -	4,090	40,610	14,054,944	529,944	9,150,000	4,375,000	50,000	—	—	—	[illegible]
Wednesday,	24th July	3,503	18,867	14,039,480	514,480	9,150,000	4,375,000	—	—	—	—	[illegible]
Thursday	25th July	23,052	126,367	13,936,165	561,165	9,000,000	4,375,000	250,000	—	100,000	—	[illegible]
Friday	26th July -	451,723	88,758	14,296,130	671,130	9,250,000	4,375,000	—	—	250,000	—	[illegible]
Saturday,	27th July -	6,947	93,782	14,212,295	587,295	9,250,000	4,375,000	50,000	—	50,000	—	[illegible]
Monday,	29th July	2,588	17,945	14,196,935	571,935	9,250,000	4,375,000	—	—	—	—	[illegible]
Tuesday,	30th July	57,311	26,371	14,227,875	602,875	9,250,000	4,375,000	50,000	—	50,000	—	[illegible]
Wednesday	31st July	7,447	16,169	14,219,123	594,123	9,250,000	4,375,000	150,000	—	150,000	—	[illegible]
Thursday,	1st August	503,721	111,603	14,611,241	586,241	9,650,000	4,375,000	100,000	—	500,000	—	[illegible]
Friday,	2nd August	327,331	111,616	14,826,956	601,956	9,750,000	4,475,000	150,000	—	250,000	100,000	[illegible]
Saturday,	3rd August	2,719	109,085	14,720,614	595,614	9,650,000	4,475,000	100,000	—	—	—	[illegible]
Tuesday,	6th August -	1,055	124,261	14,597,408	572,408	9,550,000	4,475,000	200,000	—	100,000	—	[illegible]
Wednesday,	7th August -	3,691	86,215	14,484,881	559,881	9,450,000	4,475,000	100,000	—		—	[illegible]
Thursday,	8th August -	10,722	70,118	14,455,158	530,158	9,450,000	4,475,000	50,000	—	50,000	—	[illegible]
Friday,	9th August	337,604	77,585	14,715,477	610,477	9,600,000	4,475,000		—	150,000	—	[illegible]
Saturday,	10th August -	100,958	152,517	14,463,918	388,918	9,600,000	4,475,000		—		—	[illegible]

Monday,	12th August	4,002	117,978	14,519,942	574,942	9,500,000	4,475,000	100,000	—	—	—	$2\frac{1}{2}$
Tuesday,	13th August	1,667	43,397	14,508,212	533,212	9,500,000	4,475,000	—	—	—	—	$2\frac{1}{2}$
Wednesday,	14th August	41,729	20,149	14,529,792	554,792	9,500,000	4,475,000	100,000	—	100,000	—	$2\frac{1}{2}$
Thursday,	15th August	3,588	418,449	14,114,931	589,931	9,050,000	4,475,000	450,000	—	—	—	$2\frac{1}{2}$
Friday,	16th August	341,010	217,996	14,207,945	682,945	9,050,000	4,475,000	—	—	—	—	$2\frac{1}{2}$
Saturday,	17th August	1,015,454	1,034,892	14,188,507	1,013,507	8,800,000	4,375,000	250,000	100,000	—	—	$2\frac{1}{2}$
Monday,	19th August	2,384	71,460	14,119,431	1,244,431	8,500,000	4,375,000	300,000	—	—	—	$2\frac{1}{2}$
Tuesday,	20th August	4,011	13,985	14,109,457	1,584,457	8,150,000	4,375,000	350,000	—	—	—	$2\frac{1}{2}$
Wednesday	21st August	2,035	1,003,472	*13,108,020	583,020	8,150,000	4,375,000	50,000	—	50,000	—	$2\frac{1}{2}$
Thursday,	22nd August	3,498	16,255	13,095,263	570,263	8,150,000	4,375,000	100,000	—	100,000	—	$2\frac{1}{2}$
Friday,	23rd August	338,724	88,154	13,315,833	570,833	8,100,000	4,375,000	50,000	—	300,000	—	$2\frac{1}{2}$
Saturday,	24th August	13	33,866	13,312,010	537,010	8,100,000	4,375,000	50,000	—	50,000	—	$2\frac{1}{2}$
Monday,	26th August	2,191	22,199	13,291,702	566,702	8,350,000	4,375,000	50,000	—	—	—	$2\frac{1}{2}$
Tuesday,	27th August	3,880	38,414	13,257,168	532,168	8,350,000	4,375,000	—	—	—	—	$2\frac{5}{8}$
Wednesday,	28th August	1,403	39,471	13,219,100	544,100	8,300,000	4,375,000	150,000	—	100,000	—	$2\frac{3}{4}$
Thursday,	29th August	1,463	1,429	13,219,134	594,134	8,250,000	4,375,000	200,000	—	150,000	—	$3\frac{1}{4}$
Friday,	30th August	357,558	67,288	13,509,101	684,404	8,450,000	4,375,000	300,000	—	500,000	—	$3\frac{1}{4}$
Saturday,	31st August	1,075	22,886	13,487,593	662,593	8,450,000	4,375,000	50,000	—	50,000	—	$3\frac{1}{4}$
Monday,	2nd Sept	4,424	81,816	13,410,201	585,201	8,450,000	4,375,000	100,000	—	100,000	—	$3\frac{1}{4}$
Tuesday,	3rd Sept	75,024	31,410	13,453,815	578,815	8,500,000	4,375,000	150,000	—	200,000	—	3
Wednesday,	4th Sept	4,165	11,327	13,416,653	571,653	8,500,000	4,375,000	100,000	—	100,000	—	3
Thursday,	5th Sept	4,132	9,742	13,441,043	566,043	8,500,000	4,375,000	—	—	—	—	$2\frac{3}{4}$
Friday,	6th Sept	300,622	75,270	13,666,395	591,395	8,700,000	4,375,000	—	—	200,000	—	$2\frac{3}{4}$
Saturday,	7th Sept	7,719	12,705	13,661,409	586,409	8,700,000	4,375,000	50,000	—	50,000	—	$2\frac{3}{4}$
Monday,	9th Sept	1,000,691	21,965	*14,610,135	565,135	8,700,000	5,375,000	50,000	—	50,000	1,000,000	$2\frac{3}{4}$
Tuesday,	10th Sept	34,872	13,850	14,661,157	586,157	8,700,000	5,375,000	100,000	—	100,000	—	$2\frac{3}{4}$
Wednesday,	11th Sept	39,168	9,796	14,690,529	565,529	8,750,000	5,375,000	50,000	—	100,000	—	$2\frac{3}{4}$
Thursday,	12th Sept	47,081	25,452	14,712,158	587,158	8,750,000	5,375,000	—	—	—	—	$2\frac{3}{4}$
Friday,	13th Sept	333,589	61,880	14,983,867	558,867	9,050,000	5,375,000	100,000	—	400,000	—	$2\frac{7}{8}$
Saturday,	14th Sept	1,036	9,816	14,975,087	550,087	9,050,000	5,375,000	50,000	—	50,000	—	$2\frac{5}{8}$
Monday,	16th Sept	603,941	216,346	15,362,682	587,682	9,400,000	5,375,000	50,000	—	400,000	—	$2\frac{5}{8}$
Tuesday,	17th Sept	76,272	144,051	15,294,903	569,903	9,350,000	5,375,000	100,000	—	50,000	—	$2\frac{3}{4}$
Wednesday,	18th Sept	32,714	64,131	15,263,486	588,486	9,300,000	5,375,000	150,000	—	100,000	—	$2\frac{3}{4}$
Thursday,	19th Sept	1,782	30,326	15,234,912	559,942	9,300,000	5,375,000	—	—	—	—	$2\frac{3}{4}$
Friday,	20th Sept	344,422	116,226	15,463,138	588,138	9,500,000	5,375,000	—	—	200,000	—	$2\frac{3}{4}$
Saturday,	21st Sept	5,612	40,512	15,428,238	553,238	9,500,000	5,375,000	—	—	—	—	$2\frac{3}{4}$
Monday,	23rd Sept	779	26,132	15,402,885	577,885	9,450,000	5,375,000	150,000	—	100,000	—	$2\frac{3}{4}$
Tuesday,	24th Sept	31,541	263,808	15,170,618	545,618	9,250,000	5,375,000	200,000	—	—	—	$2\frac{3}{4}$
Wednesday,	25th Sept	1,809	48,217	15,124,210	549,210	9,200,000	5,375,000	50,000	—	—	—	$2\frac{3}{4}$
Thursday,	26th Sept	1,771	7,052	15,118,929	593,929	9,150,000	5,375,000	50,000	—	—	—	$2\frac{3}{4}$
Friday,	27th Sept	507,268	250,949	15,375,218	700,248	9,300,000	5,375,000	150,000	—	300,000	—	$2\frac{3}{4}$
Saturday,	28th Sept	1,510,695	9,752	16,876,191	1,201,191	10,300,000	5,375,000	—	—	1,000,000	—	$2\frac{3}{4}$
Monday,	30th Sept	6,626	18,225	16,864,592	1,889,592	10,300,000	4,675,000	150,000	950,000	150,000	250,000	$2\frac{3}{4}$
Carried forward		20,166,840	22,718,910	—	—	—	—	13,850,000	7,565,000	13,950,000	4,375,000	—

* Six months Treasury Bills for 1,000,000*l* were bought at a cost of 986,726*l* from Home Treasury Balances on 21st August as it was then known that the 1,000,000*l* Bills maturing 9th September held on account of the Gold Standard Reserve would not be replaced by His Majesty's Exchequer. The money received on the 9th September for the maturing Bills reimbursed the Home Treasury.

Statement No 3—(*continued*)

Date		Amount of Closing Balance and Transactions affecting it: Receipts excluding Loans and Deposits repaid (1)	Payments excluding Loans and Deposits granted (2)	Closing Balance of the Bank (3)	Form in which Closing Balance was held: At Bank of England (4)	On loan (5)	On deposit with other Banks (6)	Transactions affecting Form but not Amount of Closing Balance: Loans repaid (7)	Deposits repaid (8)	Loans granted (9)	Deposits granted (10)	Rate of Interest obtained on Loans granted and renewed (11)
1912		£	£	£	£	£	£	£	£	£	£	Per cent
Brought forward		20,166,810	22 718,940	—				1,850,000	7 56[illegible]	1 950,000	4 375,000	—
Tuesday,	1st October	159 300	839 307	16 184 585	1,209,585	[illegible]	[illegible]	100,000	—	100,000	—	2½
Wednesday,	2nd October	16 837	178 751	16 023 071	1,048,071	[illegible]	[illegible]	—			—	2½
Thursday,	3rd October	3 104	466 914	15,559 531	634 531	[illegible]	[illegible]	[illegible]	—		—	2½
Friday,	4th October	528,295	164,952	15 922,874	1,897 871	[illegible]	[illegible]	[illegible]	[illegible]		—	2½
Saturday,	5th October	96,754	1 387 604	[illegible]	1 157,071	[illegible]	[illegible]	[illegible]	[illegible]		50,000	2½
Monday,	7th October	1 961	684 652	[illegible]	674,336	[illegible]	[illegible]	[illegible]		1,0[illegible]	—	2½
Tuesday,	8th October	5 842	305 467	13,654 711	529,711	[illegible]	[illegible]	[illegible]		50,000	—	2¾
Wednesday,	9th October	21 276	152 004	[illegible]	598 983	[illegible]	[illegible]	[illegible]	—	—	—	2¾
Thursday,	10th October	9,599	65,745	[illegible]	549,839	[illegible]	[illegible]		—	—	—	[illegible]
Friday,	11th October	379 276	71 942	[illegible]	1,675,173	[illegible]	[illegible]	[illegible]	17[illegible]		—	[illegible]
Saturday,	12th October	8 432	570,961	[illegible]	3,003,644	[illegible]	[illegible]	1 7[illegible]	2[illegible]		—	—
Monday,	14th October	1 857,869	4 264 818	10 796 695	996,695	[illegible]	[illegible]	[illegible]	—		—	—
Tuesday,	15th October	4 820	34 903	10 766 812	966,612	[illegible]	[illegible]				—	[illegible]
Wednesday,	16th October	53 517	215 416	[illegible]	951,683	[illegible]	[illegible]	1 [illegible]			—	[illegible]
Thursday,	17th October	4 843	17 377	10 592 119	592,119	[illegible]	[illegible]			[illegible]	—	[illegible]
Friday,	18th October	278 122	99 243	10 770 928	570,928	[illegible]	[illegible]			2[illegible]	—	[illegible]
Saturday,	19th October	1 582	20 256	[illegible]	552 054	[illegible]	[illegible]				—	[illegible]
Monday,	21st October	53 284	6 620	[illegible]	698,677	[illegible]	[illegible]	[illegible]			—	[illegible]
Tuesday,	22nd October	23 268	4 872	10 817 173	867,173	[illegible]	[illegible]	150[illegible]	—		—	[illegible]
Wednesday,	23rd October	78 875	21 266	[illegible]	924,782	[illegible]	[illegible]	[illegible]		[illegible]	—	[illegible]
Thursday,	24th October	1 954	27 424	[illegible]	899,311	[illegible]	[illegible]	[illegible]		[illegible]	—	[illegible]
Friday,	25th October	410 972	109 750	[illegible]	990,533	[illegible]	[illegible]	1 [illegible]		[illegible]	—	[illegible]
Saturday,	26th October	1 006	27 039	[illegible]	965,000	[illegible]	[illegible]	—		—	—	[illegible]
Monday,	28th October	769	14 156	[illegible]	952,513	[illegible]	[illegible]	[illegible]	—	[illegible]	—	[illegible]
Tuesday,	29th October	15 162	161 425	[illegible]	856,550	[illegible]	[illegible]	2 [illegible]			—	[illegible]
Wednesday,	30th October	79,250	321 202	[illegible]	614 598	[illegible]	[illegible]	1[illegible]		1[illegible]	—	[illegible]
Thursday,	31st October	608	141 130	[illegible]	574,166	[illegible]	[illegible]	1[illegible]	—		—	[illegible]
Friday,	1st Nov	416 509	87 135	[illegible]	653,540	[illegible]	[illegible]			2 [illegible]	—	[illegible]
Saturday	2nd Nov	3,931	95 735	[illegible]	561,726	[illegible]	[illegible]				—	[illegible]
Monday	4th Nov	959	204 803	[illegible]	617,892	[illegible]	[illegible]	2 [illegible]	1[illegible]		—	—
Tuesday,	5th Nov	70,604	18 321	10 280,175	810,175	[illegible]	[illegible]	2 [illegible]			—	—
Wednesday	6th Nov	78 865	42 327	[illegible]	876,713	[illegible]	[illegible]	—			—	[illegible]
Thursday,	7th Nov	8,752	45 631	[illegible]	639 832	[illegible]	[illegible]	—	—	2[illegible]	—	[illegible]
Friday,	8th Nov	450,705	192 205	[illegible]	598,332	[illegible]	[illegible]		—	[illegible]	—	[illegible]
Saturday,	9th Nov	5,656	11,022	[illegible]	1,112,966	7 150,000	[illegible]	[illegible]	1[illegible]	[illegible]	—	4½

Monday	11th Nov	1,012	103,674	10,440,304	790,304	7 400,000	2,250,000	50,000	—	300,000	—	4
Tuesday,	12th Nov	16,362	281,884	10,174,782	624,782	7,600,000	1,950,000	100,000	300,000	300,000	—	4
Wednesday,	13th Nov	79,002	49,217	10,204,567	654,567	7 600,000	1,950,000	100,000	—	100,000	—	4¼
Thursday,	14th Nov	2,544	114,958	10,092,153	542,153	7,600,000	1,950,000	—	—	—	—	4¼
Friday,	15th Nov	2,253,219	2 494,547	9,850,825	650,825	7,250,000	1,950,000	100,000	—	50,000	—	4¼
Saturday,	16th Nov	2,629	191,837	9,661,617	661,617	7,300,000	1,700,000	—	250,000	50,000	—	4¼
Monday	18th Nov	590	104,809	9,557,398	557,398	7,300,000	1,700,000	—	—	—	—	4¼
Tuesday,	19th Nov	68,065	73 065	9,552,398	552,398	7 300,000	1,700,000	100,000	—	100,000	—	4¼
Wednesday	20th Nov	38,308	58,183	9,532,523	582,523	7,250,000	1,700,000	100,000	—	50 000	—	4¼
Thursday	21st Nov	8,264	15,210	9,525,577	575,577	7 250,000	1,700,000	—	—	—	—	4¼
Friday,	22nd Nov	192,645	210,954	9,807,268	657,268	7 150 000	1,700,000	50,000	—	250,000	—	4¼
Saturday,	23rd Nov	1,527	108,689	9,700,106	550,106	7,150,000	1,700,000	—	—	—	—	4¼
Monday	25th Nov	3,185	123,838	9,579,453	529,453	7 350,000	1,700,000	100,000	—	—	—	4¼
Tuesday,	26th Nov	12,086	69,599	9,521,940	571,940	7,250,000	1,700,000	100,000	—	—	—	4¼
Wednesday,	27th Nov	121,122	13,715	9,629,347	679,347	7 250,000	1,700,000	50,000	—	50,000	—	4¼
Thursday,	28th Nov	2,358	7 641	9,624,064	574,064	7 350,000	1,700,000	200,000	—	300,000	—	4¼
Friday,	29th Nov	545,185	95,384	10,073,865	2,173,865	7,200 000	700,000	300,000	1,000,000	150,000	—	4¼
Saturday,	30th Nov	6,995	1,526,204	8,554 656	754,656	7 100,000	700,000	150,000	—	50,000	—	4¼
Monday,	2nd Dec	1,707	48,971	8,507,392	557,392	7,250,000	700,000	—	—	150,000	—	4¼
Tuesday,	3rd Dec	38,218	55,897	8,489,713	539,713	7,250,000	700,000	50,000	—	50,000	—	4⅛
Wednesday,	4th Dec	85,146	25,398	8,519,161	599,461	7,250,000	700 000	50,000	—	50,000	—	4¼
Thursday,	5th Dec	23,224	48,188	8,524,497	574,497	7 300,000	650,000	—	50,000	50 000	—	4½
Friday,	6th Dec	461,069	120,960	8,864,606	614,606	7,600,000	650,000	200,000	—	300,000	—	4½
Saturday,	7th Dec	55,143	8,715	8,911,034	611,034	7,650,000	650,000	—	—	50,000	—	4½
Monday,	9th Dec	88,423	4,871	8,994,586	644,586	7,700,000	650,000	—	—	50,000	—	4½
Tuesday,	10th Dec	1,069	22,531	8,973,124	523,124	7,800,000	650,000	—	—	100,000	—	4½
Wednesday,	11th Dec	150,064	13,445	9,109,743	659,743	7,800,000	650,000	—	—	—	—	4½
Thursday,	12th Dec	53,749	16,893	9,146,599	596,599	7,900,000	650,000	—	—	100,000	—	4½
Friday,	13th Dec	481,498	89,838	9,538,259	538,259	8,350,000	650,000	—	—	150,000	—	4½
Saturday,	14th Dec	1,453	15,201	9,524,511	524,511	8,350,000	650,000	—	—	—	—	4½
Monday,	16th Dec	46,219	227,758	9,342,972	592,972	8,100,000	650,000	250,000	—	—	—	4½
Tuesday,	17th Dec	3,867	30,079	9,316,760	516,760	8,150,000	650,000	—	—	50,000	—	4½
Wednesday,	18th Dec	467,394	18,938	9,765,216	965,216	8,400,000	400,000	100,000	250,000	350,000	—	4½
Thursday,	19th Dec	1,386	18,823	9,747,779	647,779	8,700,000	400,000	—	—	300,000	—	4½
Friday,	20th Dec	386,772	142,619	9,991,932	791,932	8,800,000	400,000	—	—	100,000	—	4½
Saturday,	21st Dec	102,971	40,923	10,053,980	803,980	9,250,000	—	—	100,000	150,000	—	4½
Monday,	23rd Dec	24,105	22,849	10,055,236	655,236	9,400,000	—	—	—	150,000	—	4½
Tuesday	24th Dec	139,126	93,323	10,101,039	651,039	9,450,000	—	100,000	—	150,000	—	4½
Friday,	27th Dec	720,592	199,585	10,622,046	972 046	9 650,000	—	50,000	—	250,000	—	4½
Saturday,	28th Dec	9,755	25,803	10,605,998	955,998	9,650,000	—	—	—	—	—	4½
Monday,	30th Dec	58,146	10,282	10,653,862	1,003,862	9,650 000	—	100,000	—	100 000	—	4½
Tuesday,	31st Dec	18,599	22 202	10,650,259	1,800,259	9,850,000	—	850,000	—	50,000	—	4½
Carried forward		32,379,642	41 146 075	—	—	—	—	23,350,000	12,290,000	22 000 000	4,425,000	—

Statement No 3—(*continued*)

Date	Amount of Closing Balance and transactions affecting it: Receipts excluding Loans and Deposits repaid (1)	Payments excluding Loans and Deposits granted (2)	Closing Balance (i.e. Monies at Bank of England on loan and on deposit with other Banks) (3)	Form in which Closing Balance was held: At Bank of England (4)	On loan (5)	On deposit with other Banks (6)	Transactions affecting Form but not Amount of Closing Balance: Loans repaid (7)	Deposits repaid (8)	Loans granted (9)	Deposits granted (10)	Rate of Interest obtained on Loans granted and renewed (11)
1913	£	£	£	£	£	£	£	£	£	£	Per cent
Brought forward	32,379,642	41,146,075	—	—	—	—	23,350,000	12,290,000	22,000,000	4,425,000	—
Wednesday, 1st January	320,681	1,367,189	9,603,451	803,451	8,800,000	—	50,000	—	—	—	4
Thursday, 2nd January	28,645	467,712	9,164,384	564,384	8,600,000	—	—	—	100,000	—	4
Friday, 3rd January	710,245	146,088	9,728,541	828,541	8,900,000	—	—	—	—	—	4
Saturday, 4th January	7,853	246,445	9,489,949	1,689,949	7,800,000	—	1,100,000	—	—	—	4
Monday, 6th January	125,042	1,357,091	8,257,900	707,900	7,550,000	—	350,000	—	100,000	—	4
Tuesday, 7th January	51,139	57,021	8,252,018	552,018	7,700,000	—	100,000	—	250,000	—	4
Wednesday, 8th January	270,792	593,603	7,929,207	529,207	7,400,000	—	300,000	—	—	—	4
Thursday, 9th January	55,354	89,312	7,895,249	645,249	7,250,000	—	150,000	—	—	—	4
Friday, 10th January	429,673	121,029	8,203,893	603,893	7,600,000	—	50,000	—	100,000	—	4
Saturday, 11th January	5,625	26,529	8,182,989	582,989	7,600,000	—	—	—	—	—	4
Monday, 13th January	34,218	87,194	8,130,043	580,043	7,550,000	—	50,000	—	—	—	4
Tuesday, 14th January	144,317	43,381	8,230,979	680,979	7,550,000	—	—	—	—	—	4
Wednesday, 15th January	215,634	86,569	8,360,044	760,044	7,600,000	—	—	—	50,000	—	4
Thursday, 16th January	39,254	180,365	8,218,933	618,933	7,600,000	—	100,000	—	100,000	—	4
Friday, 17th January	369,168	211,681	8,376,420	676,420	7,700,000	—	—	—	100,000	—	4¼
Saturday, 18th January	779	60,403	8,316,796	566,796	7,750,000	—	—	—	50,000	—	4¼
Monday, 20th January	34,357	22,658	8,328,495	578,495	7,750,000	—	—	—	—	—	4¼
Tuesday, 21st January	133,528	48,579	8,413,444	613,444	7,800,000	—	—	—	50,000	—	4¼
Wednesday, 22nd January	159,374	43,447	8,529,371	679,371	7,850,000	—	100,000	—	150,000	—	4¼
Thursday, 23rd January	176,848	18,972	8,687,247	737,247	7,950,000	—	50,000	—	150,000	—	4¼
Friday, 24th January	402,823	111,536	8,978,534	578,534	8,400,000	—	50,000	—	500,000	—	4¼
Saturday, 25th January	11,369	54,407	8,935,496	535,496	8,400,000	—	—	—	—	—	4¼
Monday, 27th January	36,523	80,006	8,892,013	592,013	8,300,000	—	100,000	—	—	—	4¼
Tuesday, 28th January	40,264	34,161	8,898,116	548,116	8,350,000	—	—	—	50,000	—	4¼
Wednesday, 29th January	47,378	24,188	8,921,306	574,306	8,350,000	—	100,000	—	100,000	—	4¼
Thursday, 30th January	192,609	26,696	9,087,219	737,219	8,350,000	—	50,000	—	50,000	—	4¼
Friday, 31st January	177,125	266,117	8,998,527	648,527	8,350,000	—	50,000	—	50,000	—	4¼
Saturday, 1st February	3,735	71,073	8,931,189	531,189	8,400,000	—	50,000	—	100,000	—	4¼
Monday, 3rd February	87,326	32,031	8,986,484	636,484	8,350,000	—	250,000	—	200,000	—	4½
Tuesday, 4th February	196,213	132,858	9,049,839	549,839	8,500,000	—	—	—	150,000	—	4¼
Wednesday, 5th February	163,002	12,060	9,200,781	700,781	8,500,000	—	—	—	—	—	4¼
Thursday, 6th February	69,536	79,769	9,190,548	590,548	8,600,000	—	100,000	—	200,000	—	4¼
Friday, 7th February	336,245	103,194	9,423,599	673,599	8,750,000	—	100,000	—	250,000	—	4¼
Saturday, 8th February	13,921	23,411	9,414,109	614,109	8,800,000	—	—	—	50,000	—	4¼
Monday, 10th February	100,736	115,472	9,399,373	549,373	8,850,000	—	—	—	50,000	—	4¼

Tuesday,	11th February	192,960	22,117	9,570,216	620,216	8,950,000	—	50,000	—	150,000	—	$4\frac{3}{4}$
Wednesday,	12th February	187,849	17,753	10,040,312	1,090,312	8,950,000	—	50,000	—	50,000	—	$4\frac{1}{4}$
Thursday,	13th February	28,225	430,934	9,637,603	687,603	8,950,000	—	100,000	—	100,000	—	$4\frac{1}{2}$
Friday,	14th February	150,051	281,748	9,505,906	655,906	8,850,000	—	150,000	—	50,000	—	$4\frac{3}{4}$
Saturday,	15th February	11,294	57,083	9,460,117	610,117	8,850,000	—	50,000	—	50,000	—	$4\frac{1}{2}$
Monday,	17th February	1,014,924	1,222,208	9,252,833	602,833	8,650,000	—	200,000	—	—	—	$4\frac{1}{2}$
Tuesday,	18th February	16,128	42,866	9,226,095	526,095	8,700,000	—	50,000	—	100,000	—	$4\frac{1}{2}$
Wednesday,	19th February	263,113	12,165	9,477,043	777,043	8,700,000	—	—	—	—	—	$4\frac{1}{4}$
Thursday,	20th February	361,751	42,843	9,795,951	895,951	8,900,000	—	—	—	200,000	—	$4\frac{1}{2}$
Friday,	21st February	1,099,385	1,123,864	9,771,172	671,172	9,100,000	—	—	—	200,000	—	$4\frac{1}{2}$
Saturday,	22nd February	5,497	15,692	9,761,277	561,277	9,200,000	—	—	—	100,000	—	$4\frac{1}{2}$
Monday,	24th February	73,167	14,660	9,819,784	619,784	9,200,000	—	50,000	—	50,000	—	$4\frac{1}{4}$
Tuesday,	25th February	176,210	12,075	9,983,919	583,919	9,400,000	—	—	—	200,000	—	$4\frac{1}{2}$
Wednesday,	26th February	267,012	16,481	10,234,450	834,450	9,400,000	—	—	—	—	—	$4\frac{1}{2}$
Thursday,	27th February	188,629	16,691	10,406,388	756,388	9,650,000	—	—	—	250,000	—	$4\frac{1}{2}$
Friday,	28th February	34,206	190,086	10,250,508	600,508	9,650,000	—	100,000	—	100,000	—	$4\frac{1}{2}$
Saturday,	1st March	14,257	57,431	10,207,331	557,331	9,650,000	—	—	—	—	—	$4\frac{1}{2}$
Monday,	3rd March	70,320	16,576	10,261,078	611,078	9,650,000	—	—	—	—	—	$4\frac{1}{2}$
Tuesday,	4th March	55,994	8,013	10,309,059	559,059	9,750,000	—	—	—	100,000	—	$4\frac{1}{2}$
Wednesday,	5th March	151,863	50,088	10,410,834	660,834	9,750,000	—	—	—	—	—	$4\frac{1}{2}$
Thursday,	6th March	74,337	23,017	10,462,154	712,154	9,750,000	—	50,000	—	50,000	—	$4\frac{1}{2}$
Friday,	7th March	184,337	101,751	10,544,760	594,760	9,950,000	—	—	—	200,000	—	$4\frac{1}{2}$
Saturday,	8th March	4,057	62,618	10,486,199	586,199	9,900,000	—	50,000	—	—	—	$4\frac{1}{2}$
Monday,	10th March	41,784	36,978	10,481,005	581,005	9,900,000	—	100,000	—	100,000	—	$4\frac{1}{4}$
Tuesday,	11th March	9,712	11,999	10,478,718	578,718	9,900,000	—	100,000	—	100,000	—	$4\frac{1}{4}$
Wednesday,	12th March	259,295	22,361	10,715,652	815,652	9,900,000	—	—	—	—	—	$4\frac{1}{4}$
Thursday,	13th March	52,752	34,497	10,713,907	813,907	9,900,000	—	—	—	—	—	$4\frac{1}{4}$
Friday,	14th March	32,106	191,042	10,554,971	604,971	9,950,000	—	100,000	—	150,000	—	$4\frac{1}{16}$
Saturday,	15th March	64,374	121,203	10,498,142	598,142	9,900,000	—	100,000	—	50,000	—	$4\frac{1}{2}$
Monday,	17th March	1,559	208,297	10,291,404	541,404	9,750,000	—	250,000	—	100,000	—	$4\frac{1}{2}$
Tuesday,	18th March	2,657	81,669	10,212,392	562,392	9,650,000	—	100,000	—	—	—	$4\frac{1}{2}$
Wednesday,	19th March	237,523	144,800	10,305,115	755,115	9,550,000	—	100,000	—	—	—	$4\frac{1}{2}$
Thursday,	20th March	107,064	37,405	10,374,774	574,774	9,800,000	—	—	—	250,000	—	$4\frac{1}{2}$
Saturday,	22nd March	56,712	55,144	10,376,342	576,342	9,800,000	—	—	—	—	—	$4\frac{1}{2}$
Tuesday,	25th March	28,204	39,414	10,365,132	565,132	9,800,000	—	50,000	—	50,000	—	$4\frac{1}{2}$
Wednesday,	26th March	308,241	432,668	10,240,705	740,705	9,500,000	—	300,000	—	—	—	—
Thursday,	27th March	77,895	163,155	10,155,445	605,445	9,550,000	—	—	—	50,000	—	$4\frac{1}{2}$
Friday,	28th March	1,234,550	1,385,316	10,004,679	554,679	9,150,000	—	100,000	—	—	—	$4\frac{1}{2}$
Saturday,	29th March	30,962	290,818	9,744,823	594,823	9,150,000	—	300,000	—	—	—	$4\frac{1}{2}$
Monday,	31st March	20,434	19,105	9,745,852	1,095,852	8,650,000	—	600,000	—	100,000	—	$4\frac{1}{4}$
		15,033,013	54,703,853	—	—	—	—	29,700,000	12,290,000	28,150,000	4,425,000	—

	£
Total Cash Receipts, Columns 1, 7, and 8	87,023,013
Total Cash Payments, Columns 2, 9, and 10	87,278,853
Total Cash transactions in 1912-13	174,301,866

SUPPLEMENTARY STATEMENT I

STATEMENT showing the Average Rate of Interest on Loans to Approved Borrowers in each Month in 1910, 1911, 1912, and 1913 (to 31st May) and the Bank Rate during the corresponding periods

Month	Average Rate based on the prevailing Rate on each day of the Month	Bank Rate fixed each Thursday in the Month				
1910	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
January	2 54	*4	4	3½	3½	—
February	1 79	3½	3	3	3	—
March	2 85	3	3	4	4	4
April	3 62	4	4	4	4	—
May	3 30	4	4	4	4	—
June	2 81	†3½	3	3	3	3
July	1 49	3	3	3	3	—
August	1 91	3	3	3	3	—
September	2 14	3	3	3	3	4
October	3 42	4	4	5	5	—
November	4 74	5	5	5	5	—
December	3 43	4½	4½	4½	4½	4½
1911						
January	3 35	4½	4½	4½	4	—
February	2 97	4	4	3½	3½	—
March	2 83	3½	3	3	3	3
April	2 34	3	3	3	3	—
May	1 81	3	3	3	3	—
June	1 76	3	3	3	3	3
July	1 36	3	3	3	3	—
August	1 61	3	3	3	3	3
September	2 29	3	3	4	4	—
October	2 70	4	4	4	4	—
November	2 78	4	4	4	4	4
December	3 68	4	4	4	4	—
1912						
January	3 37	4	4	4	4	—
February	3 07	4	3½	3½	3½	3½
March	3 19	3½	3½	3½	3½	—
April	3 02	3½	3½	3½	3½	—
May	2 55	3½	3	3	3	3
June	2 67	3	3	3	3	—
July	2 62	3	3	3	3	—
August	2 62	3	3	3	3	4
September	2 79	4	4	4	4	—
October	3 25	4	4	5	5	5
November	4 27	5	5	5	5	—
December	4 47	5	5	5	5	—
1913						
January	4 23	5	5	5	5	5
February	4 58	5	5	5	5	—
March	4 53	5	5	5	5	—
April	3 37	5	5	4½	4½	—
May	[illegible] 15	4½	4½	4½	4½	4½

* 1st to 5th January, 4½ per cent † 1st June, 4 per cent

Supplementary Statement II

Showing the Payments to the Bank of England and the Bank of Ireland for remuneration in respect of the under-mentioned Services

Year	Bank of England — Management of Debt — India Stocks — Management — Debt on which calculated *	Management — Rate	Management — Charge	Issue — Rate	Issue — Charge	India Bonds — Management at 100l per million	India Bonds — Issue at 1,250l per million	India Sterling Bills — Issue at 200l per million	India Railway Debenture Stocks — Management at 300l per million	Rupee Debt — Management — Rate	Rupee Debt — Management — Charge	Rupee Debt — Assessment of Indian Income Tax at 2l per Rs 10 deducted	Rupee Debt — Conversion of 3 per cent Rupee Loan at 500l per ten million Rupees	Rupee Debt — Preparation and issue of new coupon sheets of Rupee Loan of 1854–55	Purchase of Silver $\frac{1}{8}$th per cent. Commission on first 9,000,000l or less to be purchased in a financial year. Then $\frac{1}{16}$th per cent. for commission and brokerage, of which a moiety only is included below	Custody of Gold on account of the Paper Currency Reserve at $\frac{1}{32}$nd per cent per annum	Total Payments to Bank of England	Bank of Ireland — Debt on which calculated	Bank of Ireland — Management at 360l per million
	£		£		£	£	£	£	£		£	£	£	£	£	£	£	£	£
1903–04	120,782,190	360l per million up to 100,000,000l then 100l per million	37,960	500l per million	750	—	—	100	1,173	300l per ten million Rupees	5,197	111		—	5,376	—	51,597	4,191,465	1,509
1904–05	122,999,298		38,114		1,250	—		200	1,173		5,051	130	—	—	5,626	—	51,904	4,322,891	1,556
1905–06	124,608,127		38,354	625l per million	1,250	—	—	—	1,173		4,999	123	—	—	6,813	11	53,023	4,557,758	1,641
1906–07	133,576,125	300l per million	39,662		1,250	—	—	—	1,173	100l per ten million Rupees subject to a minimum charge of	8,000	123	—	—	9,830	1,703	62,011	4,995,287	1,798
1907–08	139,146,760		41,114	1,250l per million	4,375	—	—	200	1,173		8,000	123	—	—	4,340	1,864	61,189	5,277,200	1,900
1908–09	143,615,182		42,650		6,250	—	—	1,200	1,173		8,000	114	—	—	—	1,155	60,842	5,627,114	2,026
1909–10	150,745,563		44,423		9,375	—	—	1,200	1,173		8,000	108	110	—	—	477	65,166	5,807,710	2,091
1910–11	157,837,094		46,753		9,375	—	5,000	1,000	1,173		8,000	114	31	150	—	871	72,767	6,006,601	2,162
1911–12	160,933,572		47,805		4,375	100	—	900	1,173		8,000	101	1	—	—	1,181	64,539	6,175,585	2,223
1912–13	163,601,076		48,672		3,750	350	—	—	1,173		8,000	90	28	—	2,500	1,711	66,574	6,216,616	2,249

* The cost of the management of a new loan commences from the date of the last instalment

SUPPLEMENTARY STATEMENT III

COMMISSION paid to the Broker to the Secretary of State for India during each of the undermentioned years on temporary investments of the Cash Balances and Purchases and Sales of Stock

Year	Temporary investments of Cash Balances		Sales of India Stock (c)	Purchases or Sales for Gold Standard Reserve (c)	Purchases or Sales for Paper Currency Reserve (c)	Purchases for Sinking Funds (c)	Sales for Regular Widows Fund (c)	Total
	Short Loans (a)	Deposits with Banks (b)						
	£	£	£	£	£	£	£	£
1893-94 -	515	—	866	—	-	63	-	1,444
1894-95 -	169	-	-	—		64	—	233
1895-96	482	-		-		63		545
1896-97 -	1,722	-		-	-	64	-	1,786
1897-98	1,039		-	—	—	66	-	1,105
1898-99	1,528	-		-	—	74	,	1,602
1899-1900	2,569		-	—	—	77	3	2,649
1900-01	2,955		—	—	-	82	3	3,040
1901-02	3,983		813	2,125	—	86	3	7,010
1902-03	7,266	-	—	241	—	89	3	7,599
1903-04	7,002		—	1,784	-	94	4	8,884
1904-05 -	8,420	—	—	515	-	98	4	9,037
1905-06	10,909	-	-	2,310	890	100	4	14,213
1906-07	10,361	—	—	239	22	105	—	10,727
1907-08	6,596	—	—	362	45	113	3	7,119
1908-09 -	2,496	-	—	1,856	131	117	3	4,603
1909-10 -	6,764	199	—	200	—	129	4	7,296
1910-11 -	13,053	1,670	-	1,507	—	146	—	16,376
1911-12 -	6,929	1,686	—	183	1,021	156	5	9,980
1912-13	6,219	1,205	—	326	—	206	5	7,961
	100,977	4,760	1,679	11,648	2,109	1,980	47	123,209
	$\underbrace{\hphantom{100,977 \quad 4,760}}_{105,737}$		$\underbrace{\hphantom{1,679 \quad 11,648 \quad 2,109 \quad 1,980 \quad 47}}_{17,472}$					

(a) To 30th June 1911, five per cent on interest earned; thenceforward $2\frac{1}{2}$ per cent up to a maximum of 5,000*l* in any financial year, and $1\frac{1}{4}$ per cent above 5,000*l*

(b) One per cent on interest earned

(c) Registered securities, $\frac{1}{16}$th per cent

Short dated bearer securities maturing within one year or less $\frac{1}{32}$nd per cent

Ditto in from two to three years, $\frac{1}{16}$th per cent

Ditto in more than three years $\frac{1}{8}$th per cent

It should be noted that, from 1st July 1911, the total commission to be paid to the Broker on the purchases and sales of securities in any financial year is not to exceed 1,500*l*

W B

APPENDIX XII

MEMORANDUM ON THE AUTHORITY REQUIRED FOR PAYMENTS MADE AT THE INDIA OFFICE, AND THE SYSTEM OF CONTROL EXERCISED IN RESPECT OF THEM, SUBMITTED BY MR WALTER BADOCK, C S I, ACCOUNTANT-GENERAL AT THE INDIA OFFICE.

1 For all payments the approval of the Secretary of State in Council is required in some form

Interest on Debt, and Interest guaranteed to the several Indian Railway Companies

2 Every Capital Issue by Government and by guaranteed companies, whether in the form of stocks, bonds, or debentures, is effected on terms and conditions authorised by the Secretary of State in Council, and these include the payment of interest at the rate or rates and on the dates prescribed The claim of the Bank of England or Bank of Ireland, or of the Railway Company, as the case may be, for the payment of interest is closely examined in respect of the amount of principal on which interest is claimed, the rate of interest, the period for which it is payable, and the calculation involved

Payments for Issue and Management of Debt

3 The annual rates of charge made by the Banks of England and Ireland for the issue and management of the Indian Debt have been approved by the Secretary of State in Council

They are as follows —

Bank of England—

India Stocks, Issue Charge By Tender, 625*l* per million, at Fixed price, 1,250*l* per million Management Charge While the total Debt is over 125,000,000*l*, 300*l* per million per annum, if below 125,000,000*l*, 360*l* per million per annum on first 100,000,000*l*, and 60*l* per million per annum on remainder

India Bonds, Issue Charge 1,250*l* per million, Management Charge, 100*l* per million per annum

India Bills, Issue Charge, 200*l* per million

Indian Railway Debenture Stocks, the liability for which has been assumed by the Secretary of State, Management Charge, 300*l* per million per annum

Indian Railway Debentures, the liability for which has been assumed by the Secretary of State, Management Charge, *Nil*

Rupee Debt, Management Charge, 400*l* per crore per annum with a minimum payment of 8,000*l* per annum

Bank of Ireland—India Stocks, Management Charge, 360*l* per million per annum

The above arrangements regarding Management Charges were entered into in December 1905 and expire on 31st December 1915 The issue charges were fixed in December 1904

Payments for Stores procured for India

4 Stores for India are procured on requisitions received from the several Governments in India, the indents for which are submitted by the Director-General of Stores for the sanction of the Secretary of State in Council This sanction constitutes the authority for the requisite payments in respect of them

5 Tenders for the supply of the stores and for freight thereon are obtained by the Director-General of Stores, and accepted by him or by some other authorized officer, in accordance with the rules laid down by the Secretary of State in Council All tenders are accepted on behalf of the Secretary of State in Council to whom a weekly list of contracts so made is submitted A copy of each contract certified by the Director-General of Stores or a responsible officer of his department, is furnished to the Accountant-General for his guidance

6 The claims of the contractors for payment are prepared in duplicate and received in the first instance by the Director-General of Stores, who transmits them to the Accountant-General with his certificate on the claim that the stores therein enumerated have been inspected by the officers of his department, that the quantities are correct, that they are in every respect fit for the service of the Indian Government, and either that they have been taken into his charge preparatory to being shipped or have been shipped per vessel named to a port in India specified In the Accountant-General's Department the rates and calculations are examined, and the quantities and the sums charged are recorded on the copy of the Contract, care being taken that the aggregate of the claims passed for payment in respect of a contract correspond therewith

7 Some stores are manufactured by the War Department specially in compliance with Indian orders, others are procured from the War Department stock, and others are obtained by means of contracts entered into by the War Department on behalf of this Office Similarly, some stores are obtained from the Admiralty But in all cases the indents from India have received the sanction of the Secretary of State in Council, and the claims for payment are closely examined in every respect possible

8 The claims for payment for freight, like those for stores, are prepared in duplicate and are received in the first instance by the Director-General of Stores, who transmits them to the Accountant-General's Department with his certificate that stores of the weights and measurements specified in the claim have been shipped The rates charged are compared in the Accountant-General's Department with the record of the freight tender or contract, and the calculations are examined, before payment Four-fifths of the total amount of a freight claim is paid in this country (except that claims of less than 50*l* are paid in full), and the remaining one-fifth is paid in India, except when shipment is to a few outlying ports when the one-fifth is paid in England on receipt of the out-turn certificate

9 The duplicate of each store and freight claim, corrected if need be, is returned to the Director-General of Stores to form the basis of an invoice to be transmitted by him to India

10 Statements are transmitted to India monthly by the Accountant-General reconciling the sums paid for stores and freight with the invoices despatched to India

Payments to Indian Railway Companies

11 The Contracts under which payments are made to the several Indian Railway Companies have been approved by, and executed under the authority of, the Secretary of State in Council

12 The examination of claims for Guaranteed Interest has been explained under the head of Interest on Debt The claims for payment of the Annuities by means of which several of the Indian Railways have been purchased by the Secretary of State in Council, undergo a similar examination

13 Indents for stores are received from India by the Boards of Railway Companies, and referred by them to their Consulting Engineers Tenders for the supply of the stores are then invited by the Boards and considered by them at meetings, at which the Government Director is present A list of the accepted tenders is entered on the Board Minutes, the approval of the Government Director being specially requested where the tender exceeds the Indian estimate Tenders for freight are invited by the Boards when stores are ready for shipment, or at such time as may appear most advantageous to the various Companies, and the contracts are duly entered on the Minutes which also contain sanction to the rates of marine insurance on such stores

The Board Minutes are forwarded to this Office, and after they have been initialled by the Government Director and the Members of the Public Works Committee of the Council they are forwarded to the Accountant-General's Department where a register is kept of the contracts for stores, freight, &c

14 When the Contractors deliver the stores and present their claims, these claims, accompanied by the Consulting Engineer's certificates that the goods have been delivered in proper condition and quantities, are submitted to this Office for payment, and care is taken that the quantities and prices accord with the amounts sanctioned by the Board Minutes Claims for freight and insurance are presented in a similar way, and by means of the bills of lading which accompany the freight claims it is ascertained that the stores supplied have been duly shipped All bills for stores, freight, &c, contain full details, which are examined and checked

15 In a subsequent examination of the Companies' books and accounts by officers of the Accountant-General's Department it is ascertained that the amounts issued by this Office to the Companies have been paid over to the Contractors and their receipts obtained Out-turn certificates received from India are closely examined with a view to ascertaining that the stores purchased have duly reached their destination

16 Claims for inspection of stores, and bills for stamps, stationery, and other requisites are periodically presented to this Office and paid after examination and submission to Council

17 Furlough pay and sick pay of employees are issued to Railway Companies in accordance with the Board Minutes and Regulations approved from time to time by the Secretary of State in Council

18 The salaries of directors and consulting engineers and the cost of office establishments are fixed by the Secretary of State in Council, and any alterations require his sanction

19 Thus, all payments to the Railway Companies are made upon general or specific authorizations of the Secretary of State in Council, and the proceedings of the Companies are supervised at all stages so as to prevent irregularities Any disputes upon questions of principle arising out of the terms of arrangement are submitted for the decision of the Secretary of State in Council

Periodical Payments to His Majesty's Treasury and other Public Departments

20 Payments such as the contribution to the cost of the Eastern Mail Service, and the contribution towards the expenses of His Majesty's Ships in the Indian Seas, are made in accordance with agreements entered into by the Secretary of State in Council

Payments to the War Office of Effective and Non-Effective Charges in respect of British Forces serving or having served in India

21 At the commencement of each official year an agreement is arrived at between the Secretary of State in Council and the War Office as to the amounts of quarterly advances to be made on this account during the year, subject to adjustment on production of the final accounts Quarterly payments are made accordingly and subsequently adjusted

Pay, Pensions, &c

22 Furlough allowance, pay, pensions, and annuities to members and retired members of the Indian Services are issued in accordance with the regulations applicable to the several services, which have all been approved by the Secretary of State in Council An officer arriving in this country from India [illegible]s with him a Last Pay Certificate, which shows the rate of pay to which [illegible]ntitled and the date to which he has received payment in India The details of the certificate are subject to careful scrutiny in the Accountant-General's Department, and, if they appear to be in accordance with the regulations, the certificate is accepted as authority for payment Any payment of this description not in strict accordance with the regulations or

any advance made in anticipation of the receipt of the proper documents from India, would require the special sanction of the Secretary of State in Council

23 Grant of pensions in accordance with the regulations is made as regards some classes of pensions by the Government of India or the Government of Madras or Bombay, and as regards other classes by the Secretary of State in Council. Satisfactory documentary evidence of the grant in each case is required in the Accountant-General's Department before payment is made

24 Widows and children entitled to pensions chargeable on Indian Revenues from one or other of the various Service Funds to which officers subscribe and of which the regulations have been approved by the Secretary of State in Council are admitted to pension by the Director of Funds at this Office

Salaries of the India Office

25 The salaries of the India Office Establishment have been fixed by the Secretary of State in Council and approved and sanctioned by Orders of the King in Council in accordance with Section 15 of the Government of India Act, 1858

Miscellaneous Payments

26 When proposed expenditure is submitted for the sanction of the Secretary of State in Council, an estimate is generally furnished of the probable amount involved, and if that estimate of the specific grant made is exceeded, the matter is again brought before the Secretary of State in Council, and a further sanction applied for and obtained before payment of the excess In cases in which expenditure has been sanctioned without a limit as to its amount, and claims made in respect of it are not governed by regulations prescribed by the Secretary of State in Council, each claim is submitted for the special approval of the Secretary of State in Council prior to payment

Purchase of Securities for the Gold Standard Reserve, and Paper Currency Reserve

27 The Accountant-General advises the Financial Department of dividends available for investment or deposit, [illegible] ted securities maturing and requiring re-investment, &c The [illegible] is considered in Finance Committee and by the Secretary of State in Council The Secretary of State's Broker is generally instructed to take such action as is decided upon and payments are made to him for purchases approved, either upon the transfer of stock to the Stock Account of the Secretary of State in Council at the Bank of England, or upon the deposit at the Bank of England for account of the Secretary of State of bonds, bills, or debentures

Family Remittances, &c

28 Payments in this country to the relations and friends of soldiers and other employees serving in India are made under regulations prescribed by the Secretary of State in Council Estates of deceased officers and others are remitted to this country under regulations so sanctioned

Petty Disbursements, &c

29 The Under Secretaries of State have been authorised by the Secretary of State in Council to sanction petty disbursements up to a limit of 10*l* And the Accountant-General and the Director-General of Stores have been so authorised to make disbursements up to a limit of 5*l*

30 In cases of urgency the Under Secretaries of State occasionally sanction larger payments in anticipation of the payments receiving the approval of the Secretary of State in Council.